

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File number 1-6659

AQUA AMERICA, INC.

(a Pennsylvania corporation)
762 W. Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3489
(610) 527-8000

I.R.S. Employer Identification Number 23-1702594

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value \$.50 per share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12(b)-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (do not check if smaller reporting company) Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2014: \$4,621,346,948

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by June 30, 2014, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of the registrant's common stock as of February 12, 2015: 176,823,519

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of registrant's 2014 Annual Report to Shareholders for fiscal year ended December 31, 2014 have been incorporated by reference into Parts I and II of this Form 10-K.
- (2) Portions of the definitive Proxy Statement, relative to the May 8, 2015 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, have been incorporated by reference into Part III of this Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, or incorporated by reference into this Form 10-K, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are made based upon, among other things, our current assumptions, expectations, plans, and beliefs concerning future events and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words “believes,” “expects,” “anticipates,” “plans,” “future,” “potential,” “probably,” “predictions,” “continue” or the negative of such terms or similar expressions. Forward-looking statements in this Form 10-K, or incorporated by reference into this Form 10-K, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expense in rates;
- projected capital expenditures and related funding requirements;
- the availability and cost of capital financing;
- developments, trends and consolidation in the water and wastewater utility industries;
- dividend payment projections;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage per customer;
- our capability to pursue timely rate increase requests;
- our authority to carry on our business without unduly burdensome restrictions;
- our ability to obtain fair market value for condemned assets;
- the impact of fines and penalties;
- the impact of changes in and compliance with governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- the impact of decisions of governmental and regulatory bodies, including decisions to raise or lower rates;
- the development of new services and technologies by us or our competitors;
- the availability of qualified personnel;
- the condition of our assets;
- the impact of legal proceedings;
- general economic conditions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;

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- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies;
- the amount of income tax deductions for qualifying utility asset improvements and the Internal Revenue Service's ultimate acceptance of the deduction methodology; and
- the forward-looking statements contained under the heading *Forward-Looking Statements* in the section entitled *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and contained within such section, from the portion of our 2014 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;
- changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
- changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
- the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
- our ability to file rate cases on a timely basis to minimize regulatory lag;
- abnormal weather conditions, including those that result in water use restrictions;
- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change.

Given these risks and uncertainties, you should not place undue reliance on any forward-looking statements. You should read this Form 10-K and the documents that we incorporate by reference into this Form 10-K completely and with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent assumptions, expectations, plans, and beliefs only as of the date of this Form 10-K. Except for our ongoing obligations to disclose certain information under the federal securities laws, we are not obligated, and assume no obligation, to update these forward-looking statements, even though our situation may change in the future. For further information or other factors which could affect our financial results and such forward-looking statements, see *Risk Factors*. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. *Business*

The Company

Aqua America, Inc. (referred to as “Aqua America”, the “Company”, “we”, or “us”), a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 53% of our operating revenues and approximately 70% of our net income for 2014. As of December 31, 2014, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania’s service territory is located in the suburban areas in counties north and west of the City of Philadelphia and in 26 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company’s non-regulated subsidiary, Aqua Resources Inc., provides liquid waste hauling and disposal; water and wastewater service through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies’ service territories; offers, through a third party, water and wastewater line repair service and protection solutions to households; inspects, cleans and repairs storm and sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other non-regulated water and wastewater services. Lastly, the Company’s non-regulated subsidiary, Aqua Infrastructure LLC, provides non-utility raw water supply services for firms in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.’s regulated water and wastewater operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and have extended our regulated operations from southeastern Pennsylvania to include our current regulated utility operations throughout Pennsylvania and in seven other states.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. Refer to Item 3 *Legal Proceedings* for further information on this sale.

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Beginning in 2010, and substantially completed in 2013, we pursued a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations where limited customer growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. In 2014, we sold our wastewater treatment facility in Georgia; in 2013, we sold our utility operations in Florida; in 2012, we sold our utility operations in New York and in Maine; in 2011, we sold our utility operations in Missouri; and in 2010, we sold our utility operation in South Carolina. In connection with the sale of our New York and Missouri utility operations to American Water, we acquired from them additional utility systems (and customers) in Ohio and Texas, two of the larger states in our portfolio.

The operating results, cash flows, and financial position of the Company's water utility systems in Fort Wayne, Indiana, and Georgia, Florida, New York, and Maine subsidiaries have been presented in the Company's consolidated financial statements as discontinued operations.

In 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in Pennsylvania. The operation of the private pipeline system commenced in the second quarter of 2012 and serves the raw water needs of firms in the natural gas drilling industry.

The following table reports our operating revenues from continuing operations by principal state for the Regulated segment and Other and eliminations for the year ended December 31, 2014:

	Operating Revenues (000's)	Operating Revenues (%)
Pennsylvania	\$ 416,925	53.5%
Ohio	94,464	12.1%
Texas	68,259	8.8%
Illinois	50,419	6.5%
North Carolina	49,772	6.4%
Other states (1)	76,218	9.6%
Regulated segment total	756,057	96.9%
Other and eliminations	23,846	3.1%
Consolidated	\$ 779,903	100.0%

(1) Includes our operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

Information concerning revenues, net income, identifiable assets and related financial information for the Regulated segment and Other and eliminations for 2014, 2013, and 2012 is set forth in *Management's Discussion and Analysis of Financial Condition and Results of Operations* and in Note 17 – *Segment Information* in the *Notes to Consolidated Financial Statements* from the portions of our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K, which is incorporated by reference herein.

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The following table summarizes our operating revenues from continuing operations, by utility customer class, for the Regulated segment and Other and eliminations for the year ended December 31, 2014:

	Operating Revenues (000's)	Operating Revenues (%)
Residential water	\$ 458,627	58.8%
Commercial water	122,795	15.7%
Fire protection	29,448	3.8%
Industrial water	27,369	3.5%
Other water	31,412	4.0%
Water	669,651	85.8%
Wastewater	76,472	9.8%
Other utility	9,934	1.3%
Regulated segment total	756,057	96.9%
Other and eliminations	23,846	3.1%
Consolidated	\$ 779,903	100.0%

Our utility customer base is diversified among residential water, commercial water, fire protection, industrial water, other water, wastewater customers, and other utility customers (consisting of operating contracts that are closely associated with the utility operations). Residential water and wastewater customers make up the largest component of our utility customer base, with these customers representing approximately 70% of our water and wastewater revenues. Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during late spring, summer, and early fall. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases consumption. Also, an increase in the average temperature generally causes an increase in water consumption. On occasion, abnormally dry weather in our service areas can result in governmental authorities declaring drought warnings and imposing water use restrictions in the affected areas, which could reduce water consumption. See *Water Utility Supplies, and Facilities and Wastewater Utility Facilities* for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. The geographic diversity of our utility customer base reduces the effect of our exposure to extreme or unusual weather conditions in any one area of our service territory. Water usage is also affected by changing consumption patterns by our customers, resulting from such causes as increased water conservation and the installation of water saving devices and appliances that can result in decreased water usage. It is estimated that in the event we experience a 0.50% decrease in residential water consumption it would result in a decrease in annual residential water revenue of approximately \$2,000,000, and would likely be partially offset by a reduction in incremental water production expenses such as chemicals and power.

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Our growth in revenues over the past five years is primarily a result of increases in water and wastewater rates and customer growth through our acquisition strategy. See *Economic Regulation* for a discussion of water and wastewater rates. The majority of the increase in our utility customer base has been due to customers added through acquisitions and other growth ventures (excluding dispositions) as shown below:

Year	Utility Customer Growth Rate
2014	1.3%
2013	1.3%
2012	7.2%
2011	1.0%
2010	1.0%

In 2014, our customer count, excluding dispositions, increased by 12,120 customers, primarily due to utility systems that we acquired and natural growth. Overall, for the five-year period of 2010 through 2014, our utility customer base, adjusted to exclude customers associated with utility system dispositions, increased at an annual compound rate of 2.3%.

Acquisitions and Other Growth Ventures

According to the U.S. Environmental Protection Agency (“EPA”), approximately 85% of the U.S. population obtains its water from community water systems, and 15% of the U.S. population obtains its water from private wells. With approximately 53,000 community water systems in the U.S. (82% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). The majority of these community water systems are government-owned, and the balance of the systems are privately-owned (or investor-owned). The nation’s water systems range in size from large government-owned systems, such as the New York City water system which serves approximately 8 million people, to small systems, where a few customers share a common well. In the states where we operate regulated utilities, we believe there are approximately 14,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the EPA’s most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA’s survey also indicated that there are approximately 4,500 wastewater facilities in operation in the states where we operate regulated utilities.

Because of the fragmented nature of the water and wastewater utility industries, we believe there are many potential water and wastewater system acquisition candidates throughout the U.S. We believe the factors driving consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;

- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and

- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our utility operations through acquisitions or other growth ventures. During the five-year period ended December 31, 2014, we expanded our utility operations by completing 82 acquisitions or other growth ventures.

We believe that acquisitions will continue to be an important source of customer growth for us. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including calling on prospective sellers, performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals, and negotiating the terms of potential acquisitions. Further, we are also seeking other potential business opportunities, including partnering with public and private utilities to invest in water and wastewater infrastructure improvements, growing our non-regulated subsidiary, Aqua Resources, by acquiring businesses that provide water and wastewater management services, and growth opportunities provided by meeting the raw water needs the natural gas drilling industry.

Water Utility Supplies and Facilities and Wastewater Utility Facilities

Our water utility operations obtain their water supplies from surface water sources, underground aquifers, and water purchased from other water suppliers. Our water supplies are primarily self-supplied and processed at twenty surface water treatment plants located in four states, and numerous well stations located in all of the states in which we conduct business. Approximately 8% of our water supplies are provided through water purchased from other water suppliers. It is our policy to obtain and maintain the permits necessary to obtain the water we distribute.

We believe that the capacities of our sources of supply, and our water treatment, pumping and distribution facilities, are generally sufficient to meet the present requirements of our customers under normal conditions. We plan system improvements and additions to capacity in response to normal replacement and renewal needs, changing regulatory standards, changing patterns of consumption, and increased demand from customer growth. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting water and wastewater rates.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is more affected by drought warnings and restrictions because discretionary and recreational use of water is at its highest during the summer months. At other times of the year, warnings and restrictions generally have less of an effect on water consumption.

We believe that our wastewater treatment facilities are generally adequate to meet the present requirements of our customers under normal conditions. Additionally, we own several wastewater collection systems that convey the wastewater to a municipally-owned facility for treatment. Changes in regulatory requirements can be reflected in revised permit limits and conditions when permits are renewed, typically on a five-year cycle, or when treatment capacity is expanded. Capital improvements are planned and budgeted to meet normal replacement and renewal needs, anticipated changes in regulations, needs for increased capacity related to projected growth, and to reduce inflow and infiltration to collection systems. The various state utility commissions have generally recognized the operating and capital costs associated with these improvements in setting wastewater rates for current and new customers. It is our policy to obtain and maintain the permits necessary for the treatment of the wastewater that we return to the environment.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The utility commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state, and may change over time. A small number of our operations are subject to rate regulation by county or city governments. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances we are granted by the respective utility commissions or authorities in the various states in which we operate.

Accordingly, we maintain a rate case management capability, the objective of which is to provide that the tariffs of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital expenditures, interest expense, taxes, energy, materials, and compliance with environmental regulations. We file rate increase requests to recover and earn a fair return on the infrastructure investments that we make in improving or replacing our facilities and to recover expenses. In the states in which we operate, we are primarily subject to economic regulation by the following state utility commissions:

<u>State</u>	<u>Utility Commission</u>
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
Texas	Texas Public Utility Commission
Illinois	Illinois Commerce Commission
North Carolina	North Carolina Utilities Commission
New Jersey	New Jersey Board of Public Utilities
Indiana	Indiana Utility Regulatory Commission
Virginia	Virginia State Corporation Commission

Our water and wastewater operations are comprised of 53 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service, including the recovery of investments, in connection with the establishment of rates for that rate division. When feasible and beneficial to our utility customers, we will seek approval from the applicable state regulatory commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the states in which we operate permit us to file a revenue requirement for some form of consolidated rates for the rate divisions in that state.

In some regulatory jurisdictions, we may seek authorization to bill our utility customers in accordance with a rate filing that is pending before the respective regulatory commission. Furthermore, some utility commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. In these states the additional revenue billed and collected prior to the final regulatory commission ruling is subject to refund to customers based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund to customers some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Six states in which we operate water utilities, and five states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. Without this surcharge, a water and wastewater utility absorbs all of the depreciation and capital costs of these projects between base rate increases. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag,

which often acted as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, our subsidiaries in some states use a surcharge or credit on their bills to reflect changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new cost levels are incorporated into base rates.

Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of an infrastructure rehabilitation surcharge. On December 22, 2014, the North Carolina Utilities Commission granted the first infrastructure rehabilitation surcharge for Aqua North Carolina. The Attorney General has filed an appeal to the State Supreme Court challenging the approval. The infrastructure rehabilitation surcharge typically adjusts periodically based on additional qualified capital expenditures completed or anticipated in a future period, and is capped at a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. This surcharge provided revenues of \$4,598,000 in 2014, \$3,205,000 in 2013, and \$15,911,000 in 2012. The decrease from 2012 results from the effect of this surcharge being suspended, beginning in 2013, for Aqua Pennsylvania's water customers as a result of the implementation of the income tax accounting change discussed below.

In December 2012, Aqua Pennsylvania adopted an income tax accounting change, implemented on Aqua America's 2012 federal income tax return, which was filed in September 2013. This accounting change allows a tax deduction for qualifying utility asset improvements that were formerly capitalized for tax purposes, and was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission. The Pennsylvania rate order provides for a reduction in current income tax expense as a result of the recognition of income tax benefits resulting from the accounting change. This tax accounting change and its treatment under the Pennsylvania rate order financially offset the impact of the water infrastructure rehabilitation surcharge suspension. During 2013 and 2014, we changed our tax accounting for qualifying utility system repairs in our regulated operating divisions outside of Pennsylvania. These divisions currently do not employ a method of accounting that provides for a reduction in current income tax expense, and as such this change had no impact on our effective income tax rate.

In general, we believe that Aqua America and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable utility commissions usually allow only one regulated utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries. Therefore, as a regulated utility, there is little or no competition for the daily water and wastewater service we provide to our customers. Water and wastewater utilities may compete for the acquisition of other water and wastewater utilities or for acquiring new customers in new service territories. Competition for these acquisitions generally comes from nearby utilities, either investor-owned or municipal-owned, and sometimes from strategic or financial purchasers seeking to enter or expand in the water and wastewater industry. We compete for new service territories and the acquisition of other utilities on the following bases:

- economic value;
- economies of scale;
- our ability to provide quality water and wastewater service;
- our existing infrastructure network;
- our ability to perform infrastructure improvements;
- our ability to comply with environmental, health, and safety regulations, our technical, regulatory, and operational expertise;

- our ability to access capital markets; and
- our cost of capital.

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The addition of new service territories and the acquisition of other utilities by regulated utilities such as us are generally subject to review and approval by the applicable state utility commissions.

In a very few number of instances, in one of our southern states, where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to our division's mains or may construct new mains that parallel our mains. In these circumstances, on occasion, the municipally-owned system may attempt to voluntarily offer service to customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to fair market value for any assets that are condemned, and we believe the fair market value will be in excess of the book value for such assets.

Despite the condemnation of our water utility systems in Fort Wayne, Indiana (as described under Item 3 *Legal Proceedings*), and the sales of selected systems, our primary strategy continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a business or a strategic benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations, particularly for less than the fair market value of our operations or where the municipal government seeks to acquire more than it is entitled to under the applicable law or agreement. On occasion, we may voluntarily agree to sell systems or portions of systems in order to help focus our efforts in areas where we have more critical mass and economies of scale or for other strategic reasons.

Environmental, Health and Safety Regulation

Provision of water and wastewater services is subject to regulation under the federal Safe Drinking Water Act, the Clean Water Act, and related state laws, and under federal and state regulations issued under these laws. These laws and regulations establish criteria and standards for drinking water and for wastewater discharges. In addition, we are subject to federal and state laws and other regulations relating to solid waste disposal, dam safety and other aspects of our operations. Capital expenditures and operating costs required as a result of water quality standards and environmental requirements have been traditionally recognized by state utility commissions as appropriate for inclusion in establishing rates.

From time to time, Aqua America has acquired, and may acquire, systems that have environmental compliance issues. Environmental compliance issues also arise in the course of normal operations or as a result of regulatory changes. Aqua America attempts to align capital budgeting and expenditures to address these issues in due course. We believe that the capital expenditures required to address outstanding compliance issues have been budgeted in our capital program and represent less than 5% of our expected total capital expenditures over the next five years. We are parties to agreements with regulatory agencies in Pennsylvania, Texas, Indiana, and Virginia under which we have committed to make improvements for environmental compliance. These agreements are intended to provide the regulators with assurance that problems covered by these agreements will be addressed, and the

agreements generally provide protection from fines, penalties and other actions while corrective measures are being implemented. The capital improvements associated with the agreements in Indiana and Virginia have been substantially completed, and we expect those agreements to be closed out in 2015. We are actively working directly with state environmental officials in Pennsylvania and Texas to implement or amend these agreements as necessary.

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the EPA to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act set standards regarding the amount of microbial and chemical contaminants and radionuclides in drinking water. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our business, financial condition, or results of operations as we have made and are making investments to meet existing water quality standards. We may, in the future, be required to change our method of treating drinking water at some sources of supply and make additional capital investments if additional regulations become effective.

In order to remove or inactivate microbial organisms, rules were issued by the EPA to improve disinfection and filtration of potable water and to reduce consumers' exposure to disinfectants and by-products of the disinfection process. New compliance monitoring requirements went into effect in 2013 at our largest surface water treatment plants, and went into effect in 2014 at several other facilities. Two capital projects were completed in 2013 at two systems acquired in 2012 in Ohio to maintain compliance under the new monitoring requirements. One system in North Carolina, one in Ohio, and one in Texas were addressed in 2014, with operational changes and small capital investments. An additional system in North Carolina and a system in Virginia will be addressed in 2015. In aggregate, the costs of compliance with these requirements in all of our state operations are estimated at less than 1% of our planned capital program over the next five years.

A rule lowering the limit on arsenic in drinking water was promulgated in 2001 by the EPA and became effective in January 2006, with a provision for further time extensions for small water systems. One system in Texas was equipped with treatment in 2009. Construction was completed in 2010 for treatment of one well in Pennsylvania acquired in 2008. Two wells acquired in 2011 in Texas had arsenic levels requiring treatment or replacement of the source. One well was taken out of service, and treatment was installed in the other at a cost of approximately \$180,000. A system in Texas experienced a well failure in 2014, requiring the use of a backup well that has naturally occurring arsenic levels above the drinking water standard. A new well will be drilled in 2015 to replace the well that failed for a cost of approximately \$130,000.

The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium and uranium, which are naturally occurring elements. Revisions to the Radionuclides Rule changed the monitoring protocols and added a maximum contaminant level for uranium. Under the revised rule, a small number of our groundwater facilities exceeded one or more of the radionuclide standards and required treatment. Treatment has been installed at all non-complying wells that remain in service and that had been identified as needing treatment in the initial round of testing. Ongoing testing continues on quarterly, annual, 3-year, or 9-year cycles, as required by applicable regulations, and occasionally test results for an individual well will trigger requirements for public notification and/or treatment. In 2014, treatment for radiologicals was installed at a total of seven locations in North Carolina, at a cost of approximately \$300,000, and compliance is being met through the use of new or existing wells in Texas at three locations for approximately \$350,000. Approximately \$1,174,000 is budgeted in 2015 for radiological compliance in North Carolina and Texas. The future capital cost of compliance with radionuclide requirements over the next five years is expected to be less than 1% of our planned capital budget over that time.

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. It is our policy to obtain and maintain all required permits and approvals for the discharges from our water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. A program is in place to monitor

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facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, discharge violations may occur which may result in fines. These fines and penalties, if any, are not expected to have a material impact on our business, financial condition, or results of operations. We are also parties to agreements with regulatory agencies in several states where we operate while improvements are being made to address wastewater discharge issues. The required costs to comply with these agreements are included in our capital program and are expected to be less than 1% of our planned five-year capital budget.

Solid Waste Disposal - The handling and disposal of waste generated from water and wastewater treatment facilities is governed by federal and state laws and regulations. A program is in place to monitor our facilities for compliance with regulatory requirements, and we are not aware of any significant environmental remediation costs necessary from our handling and disposal of waste material from our water and wastewater operations. Capital expenditures representing less than 1% of our planned five-year capital budget have been included in our five-year capital budget related to the expansion and/or replacement of some of our current waste disposal facilities in Pennsylvania and Ohio for our large surface water treatment facilities in these states.

Dam Safety - Our subsidiaries own fifteen dams that are subject to the requirements of the federal and state regulations related to dam safety, which undergo regular inspections and an annual engineering inspection. We believe that all fifteen dams are structurally sound and well-maintained.

We performed studies of our dams that identified two dams in Pennsylvania and two dams in Ohio requiring capital improvements resulting from the adoption by state regulatory agencies of revised formulas for calculating the magnitude of a possible maximum flood event. The most significant capital improvement remaining to be performed is on one dam in Pennsylvania at a total estimated cost of \$15,000,000. Design for this dam commenced in 2013 and construction is expected to be completed in 2018. Expenditures in the aggregate for all four dams during the five-year period from 2015 to 2019 are expected to represent approximately 1.0% of our planned capital program. We continue to study alternatives for these remaining dams which might change the cost estimates and timetables for these capital improvements.

Safety Standards - Our facilities and operations may be subject to inspections by representatives of the Occupational Safety and Health Administration from time to time. We maintain safety policies and procedures to comply with the Occupational Safety and Health Administration's rules and regulations, but violations may occur from time to time, which may result in fines and penalties, which are not expected to have a material impact on our business, financial condition, or results of operations. We endeavor to correct such violations promptly when they come to our attention.

Security

We maintain security measures at our facilities, and collaborate with federal, state and local authorities and industry trade associations regarding information on possible threats and security measures for water and wastewater utility operations. The costs incurred are expected to be recoverable in water and wastewater rates and are not expected to have a material impact on our business, financial condition, or results of operations.

Employee Relations

As of December 31, 2014, we employed a total of 1,617 full-time employees. Our subsidiaries are parties to 14 labor agreements with labor unions covering 518 employees. The labor agreements expire at various times between April 2015 and January 2019.

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Available Information

We file annual, quarterly, current reports, proxy statements, and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain our SEC filings from the SEC's web site at www.sec.gov.

Our internet web site address is www.aquaamerica.com. We make available free of charge through our web site's *Investor Relations* page all of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information. These reports and information are available as soon as reasonably practicable after such material is electronically filed with the SEC.

In addition, you may request a copy of the foregoing filings, at no cost by writing or telephoning us at the following address or telephone number:

Investor Relations Department
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Telephone: 610-527-8000

Our Board of Directors has various committees including an audit committee, an executive compensation committee and a corporate governance committee. Each of these committees has a formal charter. We also have Corporate Governance Guidelines and a Code of Ethical Business Conduct. Copies of these charters, guidelines, and codes can be obtained free of charge from our web site, www.aquaamerica.com. In the event we change or waive any portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers, or senior financial officers, we will post that information on our web site.

The references to our web site and the SEC's web site are intended to be inactive textual references only, and the contents of those web sites are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

Item 1A. *Risk Factors*

In addition to the other information included or incorporated by reference in this Form 10-K, the following factors should be considered in evaluating our business and future prospects. Any of the following risks, either alone or taken together, could materially harm our business, financial condition, and results of operations. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our business, financial condition, and results of operations could be materially harmed.

The rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases or if approved rate increases are untimely or inadequate to recover and earn a return on our capital investments, to recover expenses or taxes, or to take into account changes in water usage, our profitability may suffer.

The rates we charge our customers are subject to approval by utility commissions in the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Our ability to maintain and meet our financial objectives is dependent upon the recovery of, and return on, our capital investments and expenses through the rates we charge our customers. Once a rate increase petition is filed with a utility commission, the ensuing administrative and hearing process may be lengthy and costly, and our costs may not always be fully recoverable. The timing of our rate increase

requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase. In addition, the amount or frequency of rate increases may be decreased or lengthened as a result of many factors including changes in regulatory oversight in the states in which we operate water and wastewater utilities and income tax laws regarding tax-basis depreciation as it applies to our capital expenditures or qualifying utility asset improvements. We can provide no assurances that any future rate increase request will be approved by the appropriate utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner.

In some jurisdictions, we may seek authorization to bill our utility customers in accordance with a rate filing that is pending before the respective regulatory commission. Furthermore, some utility commissions authorize the use of expense deferrals and amortization in order to provide for an impact on our operating income by an amount that approximates the requested amount in a rate request. The additional revenue billed and collected prior to the final ruling is subject to refund to customers based on the outcome of the ruling. The revenue recognized and the expenses deferred by us reflect an estimate as to the final outcome of the ruling. If the request is denied completely or in part, we could be required to refund to customers some or all of the revenue billed to date, and write-off some or all of the deferred expenses.

Our business requires significant capital expenditures that are partially dependent on our ability to secure appropriate funding. Disruptions in the capital markets may limit our access to capital. If we are unable to obtain sufficient capital, or if the cost of borrowing increases, it may harm our business, financial condition, results of operations, and our ability to pay dividends.

Our business is capital intensive. In addition to the capital required to fund customer growth through our acquisition strategy, on an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. We obtain funds for our capital expenditures from operations, contributions and advances by developers and others, debt issuances, and equity issuances. We have paid common dividends consecutively for 70 years and our Board of Directors recognizes the value that our common shareholders place on both our historical payment record and on our future dividend payments. Our ability to maintain and meet our financial objectives is dependent upon the availability of adequate capital, and we may not be able to access the capital markets on favorable terms or at all. If in the future, our credit facilities are not renewed or our short-term borrowings are called for repayment, we would have to seek alternative financing sources; however, there can be no assurance that these alternative financing sources would be available on terms acceptable to us. In the event we are unable to obtain sufficient capital, we may need to take steps to conserve cash by reducing our capital expenditures or dividend payments and our ability to pursue acquisitions may be limited. The reduction in capital expenditures may result in reduced potential earnings growth, affect our ability to meet environmental laws and regulations, and limit our ability to improve or expand our utility systems to the level we believe appropriate. There is no guarantee that we will be able to obtain sufficient capital in the future on reasonable terms and conditions for expansion, construction and maintenance. In addition, delays in completing major capital projects could delay the recovery of the capital expenditures associated with such projects through rates. If the cost of borrowing increases, we might not be able to recover increases in our cost of capital through rates. The inability to recover higher borrowing costs through rates, or the regulatory lag associated with the time that it takes to begin recovery, may harm our business, financial condition, and results of operations.

Our inability to comply with debt covenants under our credit facilities could result in prepayment obligations.

We are obligated to comply with debt covenants under some of our loan and debt agreements. Failure to comply with covenants under our credit facilities could result in an event of default, which if not cured or waived, could result in us being required to repay or finance these borrowings before their due date, limit future borrowings, cause us to default on other obligations, and increase borrowing costs. If we are forced to repay or refinance (on less favorable terms) these borrowings, our business, financial condition, and results of operations could be harmed by reduced access to capital and increased costs and rates.

General economic conditions may affect our financial condition and results of operations.

A general economic downturn may lead to a number of impacts on our business and may affect our financial condition and results of operations. Such impacts may include:

- a reduction in discretionary and recreational water use by our residential water customers, particularly during the summer months when such discretionary usage is normally at its highest;
- a decline in usage by industrial and commercial customers as a result of decreased business activity;
- an increased incidence of customers' inability to pay or delays in paying their utility bills, or an increase in customer bankruptcies, which may lead to higher bad debt expense and reduced cash flow;
- a lower natural customer growth rate due to a decline in new housing starts; and
- a decline in the number of active customers due to housing vacancies.

General economic turmoil may also lead to an investment market downturn, which may result in our pension plan's asset market values suffering a decline and significant volatility. A decline in our pension plan's asset market values could increase our required cash contributions to the plan and pension expense in subsequent years.

Contamination of our water supply may result in disruption in our services, additional costs and litigation which could harm our business, financial condition, and results of operations.

Our water supplies, including water provided to our customers, are subject to possible contamination, including from:

- naturally occurring compounds or man-made substances;
- chemicals;
- pharmaceuticals and personal care products; and
- possible deliberate or terrorist attacks.

Depending on the nature of the water contamination, we may have to interrupt the use of that water supply until we are able to substitute, where feasible, the flow of water from an uncontaminated water source, including if practicable, the purchase of water from other suppliers, or continue the water supply under restrictions on use for drinking or broader restrictions against all use except for basic sanitation and essential fire protection. We may incur significant costs, including, but not limited to, costs for water quality testing and monitoring, treatment of the contaminated source through modification of our current treatment facilities or development of new treatment methods, or the purchase of alternative water supplies. In addition, the costs we incur to decontaminate a water source or our water distribution system, and dispose of waste, could also be significant. The costs resulting from the contamination may not be recoverable in rates, or may not be recoverable in a timely manner. If we are unable to adequately treat the contaminated water supply, or substitute a water supply from an uncontaminated water source in a timely or cost-effective manner, there may be an adverse effect on our business, financial condition, and results of operations. We could also be subject to:

- claims for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies, including toxic torts;
- claims for other environmental damage;
- claims for customers' business interruption as a result of an interruption in water service;
- claims for breach of contract;
- criminal enforcement actions; or
- other claims.

We may incur costs to defend our position and/or incur reputational damage even if we are not liable for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies or other environmental damage. Our insurance policies may not be sufficient to cover the costs of these claims, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. Such claims or actions could harm our business, financial condition, and results of operations.

Our facilities could be the target of a possible terrorist or other deliberate attack which could harm our business, financial condition and results of operations.

In addition to the potential contamination of our water supply as described in a separate risk factor herein, we maintain security measures at our facilities and have heightened employee and public safety official awareness of potential threats to our water systems. We have and will continue to bear increases in costs for security precautions to protect our facilities, operations, and supplies, most of which have been recoverable under state regulatory policies. While the costs of increases in security, including capital expenditures, may be significant, we expect these costs to continue to be recoverable in water and wastewater rates. Despite our security measures, we may not be in a position to control the outcome of terrorist events, or other attacks on our water systems, should they occur. Such an event could harm our business, financial condition, results of operations.

The failure of, or the requirement to repair, upgrade or dismantle, any of our dams or reservoirs may harm our business, financial condition, and results of operations.

Several of our water systems include impounding dams and reservoirs of various sizes. Although we believe our dams are structurally sound and well-maintained, the failure of a dam could result in significant downstream damage and could result in claims for property damage or for injuries or fatalities. We periodically inspect our dams and purchase liability insurance to cover such risks, but depending on the nature of the downstream damage and cause of the failure, the policy limits of insurance coverage may not be sufficient, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates. A dam failure could also result in damage to, or disruption of, our water treatment and pumping facilities that are often located downstream from our dams and reservoirs. Significant damage to these facilities, or a significant decline in the storage of the raw water impoundment, could affect our ability to provide water to our customers until the facilities and a sufficient raw water impoundment can be restored. The estimated costs to maintain our dams are included in our capital budget projections and, although such costs to date have been recoverable in rates, there can be no assurance that rate increases will be granted in a timely or sufficient manner to recover such costs in the future, if at all.

Any failure of our water and wastewater treatment plants, network of water and wastewater pipes, or water reservoirs could result in damages that may harm our business, financial condition, and results of operations.

Our operating subsidiaries treat water and wastewater, distribute water and collect wastewater through an extensive network of pipes, and store water in reservoirs. A failure of a major treatment plant, pipe, or reservoir could result in claims for injuries or property damage. The failure of a major treatment plant, pipe, or reservoir may also result in the need to shut down some facilities or parts of our network in order to conduct repairs. Such failures and shutdowns may limit our ability to supply water in sufficient quality and quantities to our customers or collect and treat wastewater in accordance with standards prescribed by governmental regulators, including state utility commissions, and may harm our business, financial condition, and results of operations. Any business interruption or other losses might not be covered by insurance policies or be recoverable in rates, and such losses may make it difficult for us to secure insurance in the future at acceptable rates.

We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems, resulting from cyber security attacks or other cyber-related events, could harm our business.

We rely on our information technology systems in connection with the operation of our business, especially with respect to customer service and billing, accounting and, in some cases, the monitoring and operation of our treatment, storage and pumping facilities. In addition, we rely on our systems to track our utility assets and to manage maintenance and construction projects, materials and supplies, and our human resource functions. A loss of these systems, or major problems with the operation of these systems, could harm our business, financial condition, and results of operations. Our information technology systems may be vulnerable to damage or interruption from the following types of cyber security attacks or other cyber-related events:

- power loss, computer systems failures, and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data;
- computer viruses, cyber security attacks, intentional security breaches, hacking, denial of service actions, misappropriation of data and similar events;
- difficulties in the implementation of upgrades or modification to our information technology systems; and
- hurricanes, fires, floods, earthquakes and other natural disasters.

Although we do not believe that our systems are at a materially greater risk of cyber security attacks than other similar organizations, our information technology systems may be vulnerable to damage or interruption from the types of cyber security attacks or other events listed above or other similar actions, and such incidents may go undetected for a period of time. Such cyber security attacks or other events may result in:

- the loss or compromise of customer, financial, employee, or operational data;
- disruption of billing, collections or normal field service activities;
- disruption of electronic monitoring and control of operational systems; and
- delays in financial reporting and other normal management functions.

Possible impacts associated with a cyber security attack or other events may include: remediation costs related to lost, stolen, or compromised data; repairs to data processing systems; increased cyber security protection costs; adverse effects on our compliance with regulatory and environmental laws and regulation, including standards for drinking water; litigation; and reputational damage. We maintain insurance to help defray costs associated with cyber security attacks or other events, but we cannot provide assurance that such insurance will provide coverage for any particular type of incident or event or that such insurance will be adequate, and losses incurred may make it difficult for us to secure insurance in the future at acceptable rates.

Our business is impacted by weather conditions and is subject to seasonal fluctuations, which could harm demand for our water service and our revenues and earnings.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with irrigation systems, swimming pools, cooling systems, and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature, rainfall levels and rainfall frequency. In the event that temperatures during the typically warmer months are cooler than normal, if there is more rainfall than normal, or rainfall is more frequent than normal, the demand for our water may decrease and harm our business, financial condition, and results of operations.

Decreased residential customer water consumption as a result of water conservation efforts may harm demand for our water service and may reduce our revenues and earnings.

We believe there has been a general decline in water usage per residential customer as a result of an increase in conservation awareness, and the impact of an increased use of more efficient plumbing fixtures and appliances. These gradual, long-term changes are normally taken into account by the utility commissions in setting rates, whereas short-term changes in water usage, if significant, may not be fully reflected in the rates we charge. We are dependent upon the revenue generated from rates charged to our residential customers for the volume of water used. If we are unable to obtain future rate increases to offset decreased residential customer water consumption to cover our investments, expenses, and return for which we initially sought the rate increase, our business, financial condition, and results of operations may be harmed.

Drought conditions and government imposed water use restrictions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may harm our business, financial condition, and results of operations.

We depend on an adequate water supply to meet the present and future demands of our customers. Drought conditions could interfere with our sources of water supply and could harm our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could harm our business, financial condition, and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water supplies are sufficient to serve our customers during these drought conditions, which may harm our business, financial condition, and results of operations.

An important element of our growth strategy is the acquisition of water and wastewater systems. Any future acquisitions we decide to undertake may involve risks. Further, competition for acquisition opportunities from other regulated utilities, governmental entities, and strategic and financial buyers may hinder our ability to grow our business.

An important element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. It is our intent, when practical, to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- dilutive issuances of our equity securities;
- incurrence of debt, contingent liabilities, and environmental liabilities;
- unanticipated capital expenditures;
- failure to maintain effective internal control over financial reporting;
- recording goodwill and other intangible assets for which we may never realize their full value and may result in an asset impairment that may negatively affect our results of operations;
- fluctuations in quarterly results;
- other acquisition related expenses; and
- exposure to unknown or unexpected risks and liabilities.

Some or all of these items could harm our business and our ability to finance our business and to comply with regulatory requirements. The businesses we acquire in the future may not achieve sales and profitability that would justify our investment, and any difficulties we encounter in the integration process, including in the integration of processes necessary for internal control and financial reporting, could interfere with our operations, reduce our operating margins and harm our internal controls.

We compete with governmental entities, other regulated utilities, and strategic and financial buyers, for acquisition opportunities. As consolidation becomes more prevalent in the water and wastewater industries and competition for acquisitions increases, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions. In addition, our competitors may impede our growth by purchasing water utilities near our existing operations, thereby preventing us from acquiring them. Competing governmental entities, utilities, environmental or social activist groups, and strategic and financial buyers have challenged, and may in the future challenge, our efforts to acquire new companies and/or service territories. Our growth could be hindered if we are not able to compete effectively for new companies and/or service territories with other companies or strategic and financial buyers that have lower costs of operations or that can submit more attractive bids. Any of these risks may harm our business, financial condition, and results of operations.

We employ a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential and to divest operations where limited customer growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. Dispositions we decide to undertake may involve risks which could harm our business, operating results, and financial condition.

In the event we determine a division, utility system or business should be sold, we may be unable to reach terms that are agreeable to us or be able to find a suitable buyer. If the business is part of our regulated operations, we may face additional challenges in obtaining regulatory approval for the disposition, and the regulatory approval obtained may include restrictive conditions. We may be required to continue to hold or assume residual liabilities with respect to the business sold. The negotiation of potential dispositions as well as the efforts to divest the acquired business could require us to incur significant costs and cause diversion of our management's time and resources. Any of these risks may harm our business, financial condition, and results of operations.

Our water and wastewater systems may be subject to condemnations or other methods of taking by governmental entities.

In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- eminent domain;
- the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. We believe that our operating subsidiaries will be entitled to receive fair market value for any assets that are condemned. However, there is no assurance that the fair market value received for assets condemned will be in excess of book value.

In a very few number of instances, in one of our southern states where there are municipally-owned water or wastewater systems near our operating divisions, the municipally-owned system may either have water distribution or wastewater collection mains that are located adjacent to our division's mains or may construct new mains that parallel our mains. In these circumstances, on occasion, the municipally-owned system may attempt to voluntarily offer service to customers who are connected to our mains, resulting in our mains becoming surplus or underutilized without compensation.

The final determination of our income tax liability may be materially different from our income tax provision.

Significant judgment is required in determining our provision for income taxes. Our calculation of the provision for income taxes is subject to our interpretation of applicable business tax laws in the jurisdictions in which we file. In addition, our income tax returns are subject to periodic examination by the Internal Revenue Service and other taxing authorities. In December 2012, Aqua Pennsylvania changed its tax method of accounting to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. Subsequently, the Company's other regulated subsidiaries similarly changed their tax method of accounting. Our determination of what qualifies as a capital cost versus a tax deduction for utility asset improvements is subject to subsequent adjustment and may impact the income tax benefits that have been recognized. Although we believe our income tax estimates, including any tax reserves for uncertain tax positions or valuation allowances on deferred tax assets are appropriate, there is no assurance that the final determination of our income tax liability will not be materially different; either higher or lower, from what is reflected in our income tax provision. In the event we are assessed additional income taxes, our business, financial condition, and results of operations could be harmed.

Federal and state environmental laws and regulations impose substantial compliance requirements on our operations. Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and federal and state regulations issued under these laws by the EPA and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the U.S.. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot assure you that we will be at all times in total compliance with these laws, regulations and permits. If we fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators and such noncompliance could result in civil suits. Environmental laws and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more stringent over time. While we have budgeted for future capital and operating expenditures to comply with these laws and our permits, it is possible that new or stricter standards could be imposed that will require additional capital expenditures or raise our operating costs. Although these expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs. In summary, we cannot assure you that our costs of complying with, current and future environmental and health and safety laws will not harm our business, financial condition, and results of operations.

Federal and state environmental laws, regulatory initiatives relating to hydraulic fracturing, and volatility in natural gas prices, could result in reduced demand for raw water utilized in hydraulic fracturing and harm our joint venture business, financial condition, or results of operations.

We have invested in a joint venture for the construction and operation of a private pipeline system to supply raw water to natural gas drilling operations for hydraulic fracturing. Hydraulic fracturing involves the injection under pressure of water, along with other materials such as sand, into rock formations to stimulate natural gas production. In general, the environmental community has taken an interest in monitoring and understanding the potential environmental impact of hydraulic fracturing. Although hydraulic fracturing is currently regulated, in the event the use of hydraulic fracturing is further limited through regulation, our investment in the raw water pipeline may be harmed in the event that demand for raw water is reduced.

Historically, natural gas prices have been volatile, and are likely to continue to be volatile. A decrease in demand for natural gas, due to price volatility, could result in reduced demand for raw water utilized in

hydraulic fracturing. In the event hydraulic fracturing is limited, due to a reduction in demand for natural gas, our investment in the raw water pipeline may be harmed in the event that demand for raw water is reduced.

Wastewater operations entail significant risks and may impose significant costs.

Wastewater collection and treatment and septage pumping and sludge hauling involve various unique risks. If collection or treatment systems fail or do not operate properly, or if there is a spill, untreated or partially treated wastewater could discharge onto property or into nearby streams and rivers, causing various damages and injuries, including environmental damage. These risks are most acute during periods of substantial rainfall or flooding, which are the main causes of wastewater overflow and system failure. Liabilities resulting from such damages and injuries could harm our business, financial condition, and results of operations.

Work stoppages and other labor relations matters could harm our operating results.

Approximately 35% of our workforce is unionized under 14 labor contracts with labor unions, which expire over several years. In light of rising costs for healthcare and retirement benefits, contract negotiations in the future may be difficult. We are subject to a risk of work stoppages and other labor actions as we negotiate with the unions to address these issues, which could harm our business, financial condition, and results of operations. We cannot assure you that issues with our labor forces will be resolved favorably to us in the future or that we will not experience work stoppages.

Significant or prolonged disruptions in the supply of important goods or services from third parties could harm our business, financial condition, and results of operations.

We are dependent on a continuing flow of important goods and services from suppliers for our water and wastewater businesses. A disruption or prolonged delays in obtaining important supplies or services, such as maintenance services, purchased water, chemicals, water pipe, valves, hydrants, electricity, or other materials, could harm our water or wastewater services and our ability to operate in compliance with all regulatory requirements, which could harm our business, financial condition, and results of operations. In some circumstances, we rely on third parties to provide important services (such as customer bill print and mail activities or utility service operations in some of our divisions) and a disruption in these services could harm our business, financial condition, and results of operations. Some possible reasons for a delay or disruption in the supply of important goods and services include:

- our suppliers may not provide materials that meet our specifications in sufficient quantities;
- our suppliers may provide us with water that does not meet applicable quality standards or is contaminated;
- our suppliers may face production delays due to natural disasters, strikes, lock-outs, or other such actions;
- one or more suppliers could make strategic changes in the lines of products and services they offer; and
- some of our suppliers, such as small companies, may be more likely to experience financial and operational difficulties than larger, well-established companies, because of their limited financial and other resources.

As a result of any of these factors, we may be required to find alternative suppliers for the materials and services on which we rely. Accordingly, we may experience delays in obtaining appropriate materials and services on a timely basis and in sufficient quantities from such alternative suppliers at a reasonable price, which could interrupt services to our customers and harm our business, financial condition, and results of operations.

We depend significantly on the services of the members of our management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our management team. The loss of the services of any member of our management team or the inability to hire and retain experienced management personnel could harm our business, financial condition, and results of operations.

Climate change laws and regulations have been passed and are being proposed that require compliance with greenhouse gas emissions standards, as well as other climate change initiatives.

Climate change is receiving ever increasing attention worldwide. Many scientists, legislators, and others attribute global warming to increased levels of greenhouse gases (“GHG”), including carbon dioxide. Climate change laws and regulations enacted and proposed limit GHG emissions from covered entities, and require additional monitoring/reporting. At this time, the existing GHG laws and regulations are not expected to materially harm the Company’s operations or capital expenditures. However, because of the uncertainty of future climate change regulatory requirements, we cannot predict the potential impact of future laws and regulations on our business, financial condition, or results of operations. Although these future expenditures and costs for regulatory compliance may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs.

Some scientific experts are predicting a worsening of weather volatility in the future, possibly created by the climate change greenhouse gases. Changing severe weather patterns could require additional expenditures to reduce the risk associated with any increasing storm, flood and drought occurrences.

The issue of climate change is receiving ever increasing attention worldwide. Many climate change predictions, if true, present several potential challenges to water and wastewater utilities, such as: increased frequency and duration of droughts, increased precipitation and flooding, potential degradation of water quality, and changes in demand for services. We maintain an ongoing facility planning process, and this planning or the enactment of new standards may result in the need for additional capital expenditures or raise our operating costs. Because of the uncertainty of weather volatility related to climate change, we cannot predict its potential impact on our business, financial condition, or results of operations. Although any potential expenditures and costs may be recovered in the form of higher rates, there can be no assurance that the various state utility commissions that govern our business would approve rate increases to enable us to recover such expenditures and costs. We cannot assure you that our costs of complying with any climate change weather related measures will not harm our business, financial condition, or results of operations.

Item 1B *Unresolved Staff Comments*

None

Item 2. *Properties*

Our properties consist of water transmission and distribution mains and wastewater collection pipelines, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, pipes, dams, reservoirs, buildings, vehicles, land, easements, rights-of-way, and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage, and distribution of water and the collection and treatment of wastewater. Substantially all of our treatment, storage, and distribution properties are owned by our subsidiaries, and a substantial portion of our property is subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For some properties that we acquired through the exercise of the power of eminent domain and other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain over eleven thousand miles of transmission and distribution mains, 20 surface water

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treatment plants, many well treatment stations, and 181 wastewater treatment plants. A small portion of the properties are leased under long-term leases.

The following table indicates for our continuing operations our net property, plant and equipment, in thousands of dollars, as of December 31, 2014 in the principal states where we operate:

	Net Property, Plant and Equipment		
Pennsylvania	\$	2,788,545	63.3%
Ohio		387,580	8.8%
Illinois		305,909	6.9%
North Carolina		283,108	6.4%
Texas		250,717	5.7%
Other (1)		386,131	8.9%
Consolidated	\$	4,401,990	100.0%

(1) Consists primarily of our operating subsidiaries in the following states: New Jersey, Indiana, and Virginia.

We believe that our properties are generally maintained in good condition and in accordance with current standards of good water and wastewater industry practice. We believe that our facilities are adequate and suitable for the conduct of our business and to meet customer requirements under normal circumstances.

Our corporate offices are leased from our subsidiary, Aqua Pennsylvania, and are located in Bryn Mawr, Pennsylvania.

Item 3. *Legal Proceedings*

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings, other than as set forth below, to which we or any of our subsidiaries is a party or to which any of our properties is the subject that we believe are material or are expected to materially harm our business, operating results or financial condition.

For any legal proceedings which were concluded during the first nine months of 2014, refer to our respective 2014 Form 10-Q filings for disclosure of the conclusion of these legal proceedings.

The City of Fort Wayne, Indiana (the "City") authorized the acquisition by eminent domain of the northern portion of the utility system of one of our operating subsidiaries in Indiana (the "Northern Assets"). In January 2008, we reached a settlement with the City to transition the Northern Assets in February 2008 upon receipt of the City's initial valuation payment of \$16,910,500. The settlement agreement specifically stated that the final valuation of the Northern Assets will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, we turned over the Northern Assets to the City upon receipt of the initial valuation payment. The proceeds received by the Company were in excess of the book value of the assets relinquished.

In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a "public convenience and necessity" to acquire certain of our water utility system assets located in the southwest section of the City and in Allen County (the "Southern Assets") and, if negotiations with Fort Wayne officials were to fail, to condemn the Southern Assets. The parties negotiated an acquisition agreement that was approved by the City on May 13, 2014. The acquisition agreement settles both the acquisition of the Southern Assets and the dispute concerning the Northern Assets. The acquisition agreement established an aggregate purchase price of \$67,011,000 for the Southern and Northern Assets. The City has already paid Aqua Indiana \$16,910,500 for the Northern Assets. On October 22, 2014, the

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Indiana Utility Regulatory Commission approved the transaction. The transaction closed in the fourth quarter of 2014, and we recognized a gain on sale of \$29,211,000 (\$17,611,000 after-tax). As a result of this transaction, we expanded our wastewater customer base by accepting new wastewater flows from the City.

In January 2014, the Company's subsidiary in Texas was notified by the Hays Trinity Groundwater Conservation District of alleged violations of its rules with potential fines totaling \$227,031 for four of our water systems in which the unaccounted for water is alleged to exceed a certain level of the groundwater withdrawn from the district in 2013. The Company reached an agreement on the alleged violations in October 2014, which resulted in various corrections to the District's initial allegations, no fines or penalties, an agreement for the Company to invest capital in its water mains in an amount under \$100,000, and an approximate \$12,000 payment to support and promote water conservation education and awareness.

Item 4. *Mine Safety Disclosures*

Not applicable.

PART II

Item 5. *Market for the Registrant's Common Stock, Related Stockholder Matters and Purchases of Equity Securities*

Our common stock is traded on the New York Stock Exchange under the ticker symbol WTR. As of February 12, 2015, there were approximately 25,749 holders of record of our common stock.

The following table shows the high and low intraday sales prices for our common stock as reported on the New York Stock Exchange composite transactions reporting system and the cash dividends paid per share for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2014					
Dividend paid per common share	\$ 0.152	\$ 0.152	\$ 0.165	\$ 0.165	\$ 0.634
Dividend declared per common share	0.152	0.152	0.165	0.165	0.634
Price range of common stock					
- high	25.56	26.27	26.29	28.22	28.22
- low	22.40	24.25	23.12	23.26	22.40
2013					
Dividend paid per common share	\$ 0.140	\$ 0.140	\$ 0.152	\$ 0.152	\$ 0.584
Dividend declared per common share	0.140	0.292	-	0.152	0.584
Price range of common stock					
- high	25.17	26.62	28.12	25.78	28.12
- low	20.61	23.52	24.01	22.69	20.61

We have paid common dividends consecutively for 70 years. Effective August 5, 2014, our Board of Directors authorized an increase of 8.6% in the September 1, 2014 quarterly dividend over the dividend Aqua America paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2014, the annualized dividend rate increased to \$0.66 per share. This is the 24th dividend increase in the past 23 years and the 16th consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 51.9% of net income attributable to common shareholders.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2014:

Issuer Purchases of Equity Securities

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plan or Programs (2)</u>
October 1-31, 2014	71,457	\$ 23.71	70,000	125,348
November 1-30, 2014	3,356	\$ 26.46	-	125,348
December 1-31, 2014	-	\$ -	-	1,125,348
Total	74,813	\$ 23.84	70,000	1,125,348

- (1) These amounts consist of 4,813 shares we purchased from our employees who elected to pay the exercise price of their stock options, upon exercise, by delivering to us shares of Aqua America common stock in accordance with the terms of our equity compensation plans that were previously approved by our shareholders and disclosed in our proxy statements. This feature of our equity compensation plan is available to all employees who receive option grants under the plan. We purchased these shares at their fair market value, as determined by reference to the closing price of our common stock on the day prior to the option exercise.
- (2) On October 4, 2013, our Board of Directors approved a resolution authorizing the purchase of up to 685,348 shares. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing buy-back authorization from 1997. As of December 31, 2014, 125,348 shares remain available for purchase under this program. The program has no fixed expiration date. In December 2014, our Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. This program expires on the earliest of December 31, 2015 or when all authorized repurchases have been made.

Item 6. *Selected Financial Data*

The information appearing in the section captioned *Summary of Selected Financial Data* from the portions of our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The information appearing in the section captioned *Management's Discussion and Analysis of Financial Condition and Results of Operations* from the portions of our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates, and short-term debt, which is at floating interest rates. As of December 31, 2014, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$ 58,615	\$ 35,903	\$ 103,092	\$ 54,051	\$ 94,797	\$ 1,200,812	\$ 1,547,270	\$ 1,622,424
Variable rate	-	-	72,000	-	-	-	72,000	72,000
Total	\$ 58,615	\$ 35,903	\$ 175,092	\$ 54,051	\$ 94,797	\$ 1,200,812	\$ 1,619,270	\$ 1,694,424
Weighted average interest rate*	5.21%	4.82%	2.43%	6.33%	4.93%	4.84%	4.85%	

*Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 3.58% and variable rate debt of 0.78%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the “available-for-sale” marketable equity securities. As of December 31, 2014, the carrying value of these investments, which reflects market value, in thousands of dollars, was \$170.

Item 8. *Financial Statements and Supplementary Data*

Information appearing under the captions *Consolidated Statements of Net Income, Consolidated Statements of Comprehensive Income, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, Consolidated Statements of Capitalization, Consolidated Statements of Equity* and *Notes to Consolidated Financial Statements* from the portions of our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein. Also, the information appearing in the sections captioned *Management’s Report on Internal Control Over Financial Reporting* and *Report of Independent Registered Public Accounting Firm* from the portions of our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

(a) **Evaluation of Disclosure Controls and Procedures** – Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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(b) Management's Report on Internal Control Over Financial Reporting – The information appearing in the section captioned *Management's Report on Internal Control Over Financial Reporting* from the portions of our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

(c) Attestation Report of the Registered Public Accounting Firm – The Attestation Report of our Independent Registered Public Accounting Firm as to our internal control over financial reporting, contained in our 2014 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K, is incorporated by reference herein. With the exception of the aforementioned information and the information incorporated by reference in Items 6, 7, and 8, the 2014 Annual Report to Shareholders is not to be deemed filed as part of the Annual Report on Form 10-K.

(d) Changes in Internal Control Over Financial Reporting – No change in our internal control over financial reporting occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. *Other Information*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information appearing in the sections captioned *Information Regarding Nominees and Directors, Corporate Governance – Code of Ethics, – Board and Board Committees*, and *Section 16(a) Beneficial Ownership Reporting Compliance* of the definitive Proxy Statement relating to our May 8, 2015, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

We make available free of charge within the Corporate Governance portion of the investor relations section of our web site, at www.aquaamerica.com, our Corporate Governance Guidelines, the Charters of each Committee of our Board of Directors, and our Code of Ethical Business Conduct (the "Code"). Amendments to the Code, and any grant of a waiver from a provision of the Code requiring disclosure under applicable SEC rules, will be disclosed on our web site. The reference to our web site is intended to be an inactive textual reference only, and the contents of such web site are not incorporated by reference herein and should not be considered part of this or any other report that we file with or furnish to the SEC.

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Our Executive Officers

The following table and the notes thereto set forth information with respect to our executive officers, including their names, ages, positions with Aqua America and business experience during the last five years:

<u>Name</u>	<u>Age</u>	<u>Position with Aqua America (1)</u>
Nicholas DeBenedictis	69	Chairman, President and Chief Executive Officer (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Aqua Pennsylvania (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
David P. Smeltzer	56	Executive Vice President and Chief Financial Officer (January 2012 to present); Chief Financial Officer (February 2007 to January 2012); Senior Vice President - Finance and Chief Financial Officer (December 1999 to February 2007); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (3)
Christopher H. Franklin	50	Executive Vice President and President and Chief Operating Officer, Regulated Operations (January 2012 to Present); Regional President – Midwest and Southern Operations and Senior Vice President, Corporate and Public Affairs (January 2010 to January 2012); Regional President, Aqua America – Southern Operations and Senior Vice President, Public Affairs and Customer Operations (January 2007 to January 2010); Vice President, Public Affairs and Customer Operations (July 2002 to January 2007) (4)
Karl M. Kyriss	64	Executive Vice President and President, Aqua Capital Ventures (January 2012 to present); Regional President – Northeastern Operations (January 2010 to January 2012); Regional President, Aqua Mid-Atlantic Operations (February 2007 to January 2010); President - Aqua Pennsylvania (March 2003 to January 2012) and President, Mid-Atlantic Operations (May 2005 to February 2007) (5)
Christopher P. Luning	47	Senior Vice President, General Counsel, and Secretary (April 2012 to present); Vice President Corporate Development and Corporate Counsel (June 2008 to April 2012); Vice President and Deputy General Counsel (May 2005 to June 2008); Assistant General Counsel (March 2003 to May 2005)
William C. Ross	69	Senior Vice President, Engineering and Environmental Affairs (January 2012 to present); Vice President, Engineering and Environmental Affairs (February 2001 to January 2012); Senior Manager Planning and Engineering Philadelphia Suburban Water Company (February 1998 to February 2001)
Robert A. Rubin	52	Senior Vice President, Controller and Chief Accounting Officer (January 2012 to present); Vice President, Controller and Chief Accounting Officer (May 2005 to January 2012); Controller and Chief Accounting Officer (March 2004 to May 2005); Controller (March 1999 to March 2004) (6)

Prior to January 16, 2004, Aqua Pennsylvania was known as Philadelphia Suburban Water Company.

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- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Company. Officers serve at the discretion of the Board of Directors.
- (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.
- (3) Mr. Smeltzer was Vice President - Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.
- (4) Mr. Franklin was Director of Public Affairs from January 1993 to February 1997.
- (5) Mr. Kyriss was Vice President - Northeast Region of American Water Works Services Company from 1997 to 2003.
- (6) Mr. Rubin was Accounting Manager with Aqua America from June 1989 to June 1994. He then served from June 1994 to March 1999 as Assistant Controller of Philadelphia Suburban Water Company.

Item 11. *Executive Compensation*

The information appearing in the sections captioned *Executive Compensation* and *Director Compensation* of the definitive Proxy Statement relating to our May 8, 2015, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Ownership of Common Stock - The information appearing in the section captioned Ownership of Common Stock of the Proxy Statement relating to our May 8, 2015, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Securities Authorized for Issuance under Equity Compensation Plans - The following table provides information for our equity compensation plans as of December 31, 2014:

Equity Compensation Plan Information

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights		
	(a)	Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,801,701 (1)	\$ 17.06 (2)	4,415,658
Equity compensation plans not approved by security holders	0	0	0
Total	1,801,701	\$ 17.06	4,415,658

- (1) Consists of 1,084,992 shares issuable upon exercise of outstanding options, 582,644 shares issuable upon conversion of outstanding performance share units, and 134,065 shares issuable upon conversion of outstanding restricted share units.

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(2) Calculated only based upon outstanding options of 1,084,992 shares of our common stock.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information appearing in the sections captioned *Corporate Governance – Director Independence* and – *Policies and Procedures For Approval of Related Person Transactions* of the definitive Proxy Statement relating to our May 8, 2015, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

Item 14. *Principal Accountant Fees and Services*

The information appearing in the section captioned *Proposal No. 2 – Services and Fees* of the definitive Proxy Statement relating to our May 8, 2015, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K, is incorporated by reference herein.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements. The following is a list of our consolidated financial statements and supplementary data included in Exhibit 13.1 and incorporated by reference in Item 8 hereof:

Management's Report on Internal Control Over Financial Reporting
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets – December 31, 2014 and 2013
Consolidated Statements of Net Income – 2014, 2013, and 2012
Consolidated Statements of Comprehensive Income – 2014, 2013, and 2012
Consolidated Statements of Cash Flows – 2014, 2013, and 2012
Consolidated Statements of Capitalization – December 31, 2014 and 2013
Consolidated Statements of Equity – 2014, 2013, and 2012
Notes to Consolidated Financial Statements

Financial Statement Schedules.

Schedule 1. – Condensed Parent Company Financial Statements. All other schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

Exhibits, Including Those Incorporated by Reference. A list of exhibits filed as part of this Form 10-K is set forth in the Exhibit Index hereto which is incorporated by reference herein. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AQUA AMERICA, INC.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

Date: February 27, 2015

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Pursuant to the requirements of the Securities and Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the Registrant on February 27, 2015 in the capacities indicated below.

/s/ Nicholas DeBenedictis
Nicholas DeBenedictis
Chairman, President, Chief Executive Officer
and Director (Principal Executive Officer)

/s/ David P. Smeltzer
David P. Smeltzer
Executive Vice President and Chief Financial
Officer (Principal Financial Officer)

/s/ Robert A. Rubin
Robert A. Rubin
Senior Vice President, Controller and Chief
Accounting Officer (Principal Accounting
Officer)

/s/ Michael L. Browne
Michael L. Browne
Director

/s/ Richard H. Glanton
Richard H. Glanton
Director

/s/ Lon R. Greenberg
Lon R. Greenberg
Director

/s/ William P. Hankowsky
William P. Hankowsky
Director

/s/ Wendell F. Holland
Wendell F. Holland
Director

/s/ Ellen T. Ruff
Ellen T. Ruff
Director

/s/ Andrew J. Sordoni III
Andrew J. Sordoni III
Director

Aqua America, Inc.
Schedule 1 – Condensed Parent Company Financial Statements

Condensed Balance Sheets
(In thousands of dollars)
December 31, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Accounts receivable, net	\$ 346	\$ 1,423
Accounts receivable - affiliates	19,852	3,092
Income tax receivable	581	-
Deferred income taxes	22,456	34,366
Prepayments and other current assets	3,366	3,232
Total current assets	<u>46,601</u>	<u>42,113</u>
Deferred charges and other assets, net	19,180	18,227
Notes receivable - affiliates	300,932	280,830
Accounts receivable - affiliates	98,647	54,456
Deferred income tax asset	72,407	94,809
Investment in subsidiaries	1,664,768	1,510,377
Total assets	<u>\$ 2,202,535</u>	<u>\$ 2,000,812</u>
Liabilities and Equity		
Stockholders' equity	\$ 1,655,343	\$ 1,534,835
Long-term debt, excluding current portion	378,400	324,400
Current liabilities:		
Current portion of long-term debt	18,000	27,000
Accounts payable	-	300
Accrued interest	2,603	3,115
Accrued taxes	-	798
Accounts payable - affiliates	22,003	22,263
Other accrued liabilities	10,986	13,404
Total current liabilities	<u>53,592</u>	<u>66,880</u>
Other liabilities	115,200	74,697
Total liabilities and equity	<u>\$ 2,202,535</u>	<u>\$ 2,000,812</u>

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.
Schedule 1 – Condensed Parent Company Financial Statements

Condensed Statements of Income and Comprehensive Income
(In thousands, except per share amounts)
Years ended December 31, 2014, 2013, and 2012

	2014	2013	2012
Other income	\$ 4,228	\$ 6,936	\$ 13,017
Operating expense and other expenses	627	2,941	1,734
Gain on sale of utility systems	-	(400)	(13,064)
Operating income	3,601	4,395	24,347
Interest expense, net	2,160	4,208	4,031
Other expense (income)	443	139	(1,714)
Income before equity in earnings of subsidiaries and income taxes	998	48	22,030
Equity in earnings of subsidiaries	230,209	220,675	182,652
Income before income taxes	231,207	220,723	204,682
Provision for income taxes	(2,032)	(577)	8,119
Net income attributable to common shareholders	<u>\$ 233,239</u>	<u>\$ 221,300</u>	<u>\$ 196,563</u>
Comprehensive income	<u>\$ 233,681</u>	<u>\$ 221,531</u>	<u>\$ 196,422</u>
Net income per common share:			
Basic	\$ 1.32	\$ 1.26	\$ 1.13
Diluted	<u>\$ 1.31</u>	<u>\$ 1.25</u>	<u>\$ 1.12</u>
Average common shares outstanding during the period:			
Basic	176,864	176,140	174,201
Diluted	<u>177,763</u>	<u>176,814</u>	<u>174,918</u>

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.
Schedule 1 – Condensed Parent Company Financial Statements

Condensed Statements of Cash Flows
(In thousands of dollars)
Years ended December 31, 2014, 2013, and 2012

	2014	2013	2012
Net cash flows from operating activities	\$ 114,465	\$ 159,144	\$ 44,097
Cash flows from investing activities:			
Acquisitions of utility systems and other, net	(9,329)	(266)	(105,160)
Net proceeds from the sale of utility systems and other assets	-	-	79,560
Proceeds from note receivable	-	-	-
Decrease (increase) in investment of subsidiary	744	50,337	(54,574)
Other	(733)	(267)	(3,681)
Net cash flows (used in) from investing activities	(9,318)	49,804	(83,855)
Cash flows from financing activities:			
Net repayments of short-term debt	-	-	(5,000)
Proceeds from long-term debt	170,790	98,956	210,317
Repayments of long-term debt	(156,000)	(230,600)	(99,212)
Proceeds from issuing common stock	-	10,290	13,190
Proceeds from exercised stock options	7,296	25,698	14,598
Share-based compensation windfall tax benefits	1,422	2,420	-
Repurchase of common stock	(15,756)	(12,823)	(1,464)
Dividends paid on common stock	(112,106)	(102,889)	(93,423)
Other	(793)	-	-
Net cash flows (used in) from financing activities	(105,147)	(208,948)	39,006
Net decrease in cash and cash equivalents	-	-	(752)
Cash and cash equivalents at beginning of year	-	-	752
Cash and cash equivalents at end of year	\$ -	\$ -	\$ -

See Note 1 - *Basis of Presentation*

The accompanying condensed notes are an integral part of these condensed financial statements.

Aqua America, Inc.

Notes to Condensed Parent Company Financial Statements
(In thousands of dollars)

Note 1 – Basis of Presentation – The accompanying condensed financial statements of Aqua America, Inc. (parent) should be read in conjunction with the consolidated financial statements and notes thereto of Aqua America, Inc. and subsidiaries (“Registrant”) included in Part II, Item 8 of the Form 10-K. Aqua America Inc.’s (parent) significant accounting policies are consistent with those of the Registrant and its wholly-owned subsidiaries.

Aqua America, Inc. (parent) borrows and provides funds to its subsidiaries, in support of their operations. Amounts owed to Aqua America, Inc. (parent) for borrowings under this facility are reflected as inter-company receivables on the condensed balance sheets. The interest rate charged to the subsidiaries is sufficient to cover Aqua America, Inc.’s (parent) interest costs under its associated borrowings.

As of December 31, 2014 and 2013, Aqua America, Inc. (parent) had a current accounts receivable – affiliates balance of \$19,852 and \$3,092. As of December 31, 2014 and 2013, Aqua America, Inc. (parent) had a notes receivable – affiliates balance of \$300,932 and \$280,830. The changes in these balances represent non-cash adjustments that are recorded through Aqua America, Inc.’s (parent) investment in subsidiaries.

In the ordinary course of business, Aqua America, Inc. (parent) indemnifies a third-party for surety bonds issued on behalf of subsidiary companies, guarantees the performance of one of its regulated utilities in a jurisdiction that requires such guarantees, and guarantees several projects associated with the treatment of water in a jurisdiction.

Note 2 – Dividends from subsidiaries – Dividends in the amount of \$30,972, \$18,075, and \$22,520 were paid to Aqua America, Inc. (parent) by its wholly-owned subsidiaries during the years ended December 31, 2014, 2013, and 2012, respectively.

Note 3 – Long-term debt – Aqua America, Inc. (parent) has long-term debt under unsecured note purchase agreements with investors in addition to its \$200,000 revolving credit agreement. Excluding amounts due under the revolving credit agreement, the debt maturities of Aqua America, Inc.’s (parent) long-term debt are as follows:

	2015	\$	18,000
	2016		16,050
	2017		26,050
	2018		20,800
	2019		50,000
	Thereafter		193,500

Aqua America, Inc. (parent) has a short-term line of credit of \$15,000. Funds borrowed under this line are classified as loans payable and is used to provide working capital. The short-term borrowing activity for the last three years is as follows:

	2014	2013	2012
Balance outstanding at December 31,	\$ -	\$ -	-\$ -
Interest rate at December 31,	-	-	-
Average borrowings outstanding	\$ 583	\$ -	-\$ -
Weighted-average interest rate	0.78%	-	-
Maximum amount outstanding	\$ 7,000	\$ -	-\$ -

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
2.1	Stock Purchase Agreement, dated as of July 26, 2011, by and between Aqua America, Inc. and Connecticut Water Service, Inc. (23) (Exhibit 2.1)
2.2	Stock Purchase Agreement, dated as of July 8, 2011, by and among American Water Works Company, Inc., Ohio-American Water Company and Aqua Ohio, Inc. (23) (Exhibit 2.2)
2.3	Stock Purchase Agreement, dated as of July 8, 2011, by and among Aqua Utilities, Inc., Aqua New York, Inc. and American Water Works Company, Inc. (31) (Exhibit 2.3)
2.4	Utility System Asset Acquisition Agreement as of December 28, 2012 by and among Florida Governmental Utility Authority, as buyer and Aqua Utilities Florida, Inc., and Crystal River Utilities, Inc., as sellers (28) (Exhibit 2.4)
3.1	Aqua America, Inc., Amended and Restated Articles of Incorporation as of May 10, 2012 (27) (Exhibit 3.1)
3.2	Amended and Restated Bylaws, as amended effective as of May 10, 2012 (27) (Exhibit 3.2)
3.3	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities(now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)
4.1.1	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)
4.1.2	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (3) (Exhibit 4.5)
4.1.3	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (4) (Exhibit 4.12)
4.1.4	Twenty-ninth Supplemental Indenture dated as of March 30, 1995 (5) (Exhibit 4.17)
4.1.5	Thirty-third Supplemental Indenture, dated as of November 15, 1999 (8) (Exhibit 4.27)
4.1.6	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002 (9) (Exhibit 4.22)
4.1.7	Thirty-ninth Supplemental Indenture, dated as of May 1, 2005 (11) (Exhibit 4.29)
4.1.8	Fortieth Supplemental Indenture, dated as of December 15, 2005 (12) (Exhibit 4.31)
4.1.9	Forty-first Supplemental Indenture, dated as of January 1, 2007 (13) (Exhibit 4.1)
4.1.10	Forty-second Supplemental Indenture, dated as of December 1, 2007 (14) (Exhibit 4.36)
4.1.11	Forty-third Supplemental Indenture, dated as of December 1, 2008 (16) (Exhibit 4.37)
4.1.12	Forty-fourth Supplemental Indenture, dated as of July 1, 2009 (17) (Exhibit 4.38)
4.1.13	Forty-fifth Supplemental Indenture, dated as of October 15, 2009 (19) (Exhibit 4.39)
4.1.14	Forty-sixth Supplemental Indenture, dated as of October 15, 2010 (21) (Exhibit 4.35)
4.1.15	Forty-seventh Supplemental Indenture, dated as of October 15, 2012 (28) (Exhibit 4.24)
4.1.16	Forty-eighth Supplemental Indenture, dated as of October 1, 2013 (30) (Exhibit 4.1.17)
4.1.17	Forty-ninth Supplemental Indenture, dated as of December 1, 2014
4.2	Note Purchase Agreement among the note purchasers and Philadelphia Suburban Corporation, dated July 31, 2003 (10) (Exhibit 4.27)
4.3	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (5) (Exhibit 10.12)
10.1	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (6) (Exhibit 10.24)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.1.1	Amendment 2008-1 to the Aqua America, Inc. Deferred Compensation Plan Master Trust Agreement, dated as of December 15, 2008* (16) (Exhibit 10.50)
10.2	Placement Agency Agreement between Philadelphia Suburban Water Company and Merrill Lynch & Co., PaineWebber Incorporated, A.G. Edwards & Sons, Inc., First Union Securities, Inc., PNC Capital Markets, Inc. and Janney Montgomery Scott, Inc., dated as of November 15, 1999 (8) (Exhibit 10.41)
10.3	Bond Purchase Agreement among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 12, 2007 (14) (Exhibit 10.34)
10.4	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated May 10, 2005 (11) (Exhibit 10.36)
10.5	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005 (12) (Exhibit 10.37)
10.6	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (33)
10.7	Non-Employee Directors' Compensation for 2014* (30) (Exhibit 10.9)
10.8	Non-Employee Directors' Compensation for 2015*
10.9	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006 (13) (Exhibit 10.2)
10.10	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 4, 2008 (16) (Exhibit 10.35)
10.11	Aqua America, Inc. 2004 Equity Compensation Plan (as amended and restated as of January 1, 2009)* (16) (Exhibit 10.36)
10.12	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Nicholas DeBenedictis, effective as of January 1, 2009* (16) (Exhibit 10.37)
10.13	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and David P. Smeltzer, effective as of January 1, 2009* (16) (Exhibit 10.39)
10.14	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Karl M. Kyriss, effective as of January 1, 2009* (16) (Exhibit 10.40)
10.15	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Christopher H. Franklin, effective as of January 1, 2009* (16) (Exhibit 10.41)
10.16	Change in Control and Severance Agreement between Aqua America, Inc. and Nicholas DeBenedictis, dated December 31, 2008* (16) (Exhibit 10.42)
10.17	Change in Control Agreement between Aqua America, Inc. and David P. Smeltzer, dated December 31, 2008* (16) (Exhibit 10.44)
10.18	Change in Control Agreement between Aqua America, Inc. and Karl M. Kyriss, dated December 31, 2008* (16) (Exhibit 10.45)
10.19	Change in Control Agreement between Aqua America, Inc. and Christopher H. Franklin, dated December 31, 2008* (16) (Exhibit 10.46)
10.20	Change in Control Agreement between Aqua America, Inc. and Christopher P. Luning, dated March 1, 2011* (28) (Exhibit 10.34)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.21	Aqua America, Inc. 2009 Executive Deferral Plan (as amended and restated effective January 1, 2009)* (15) (Exhibit 4.1)
10.22	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, (as amended effective February 27, 2014)* (32) (Exhibit 10.1)
10.23	Employment Agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis* (18) (Exhibit 10.1)
10.24	Amendment to Employment Agreement dated December 6, 2011, between Aqua America, Inc. and Nicholas DeBenedictis* (24) (Exhibit 10.56)
10.25	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., and Janney Montgomery Scott LLC, dated June 30, 2009 (17) (Exhibit 10.52)
10.26	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., Janney Montgomery Scott LLC, and PNC Capital Markets LLC, dated October 20, 2009 (19) (Exhibit 10.59)
10.27	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated January 31, 2010* (18) (Exhibit 10.2)
10.28	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc., Jeffries and Company, Inc., PNC Capital Markets LLC, and TD Securities (USA) LLC, dated October 27, 2010 (21) (Exhibit 10.51)
10.29	Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., and Citizens Bank of Pennsylvania, dated as of November 30, 2010 (21) (Exhibit 4.34)
10.30	First Amendment to Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank, dated as of November 28, 2011 (24) (Exhibit 4.25)
10.31	Revolving Credit Agreement between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank, dated as of March 23, 2012 (26) (Exhibit 10.60)
10.32	Second Amendment to Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank, dated as of November 26, 2012 (28) (Exhibit 10.53)
10.33	Third Amendment to Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank, dated as of November 25, 2013 (30) (Exhibit 10.34)
10.34	Bond Purchase Agreement among Aqua Pennsylvania, Inc., Teachers Insurance and Annuity Association, John Hancock Life Insurance Company, John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Lincoln Life & Annuity Company of New York, New York Life Insurance Company, New York Life Insurance and Annuity Corporation, Minnesota Life Insurance Company, United Health Care Insurance Company, American Republic Insurance Company, Western Fraternal Life Association, dated November 8, 2012 (28) (Exhibit 10.54)
10.35	Aqua America, Inc. and Subsidiaries Annual Cash Incentive Compensation Plan (adopted February 26, 2013)* (28) (Exhibit 10.56)
10.36	Form of Performance-Based Share Unit Grant for Executive Officers and Senior Officers* (31) (Exhibit 10.47(A))
10.37	Performance-Based Share Unit Grant Terms and Conditions for Executive Officers and Senior Officers* (31) (Exhibit 10.47(B))
10.38	Form of Performance-Based Share Unit Grant for Managers* (31) (Exhibit 10.48(A))
10.39	Performance-Based Share Unit Grant Terms and Conditions for Managers* (31) (Exhibit 10.48(B))

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.40	Form of Restricted Stock Unit Grant for Executive Officers and Senior Officers* (31) (Exhibit 10.49(A))
10.41	Restricted Stock Unit Grant Terms and Conditions for Executive Officers and Senior Officers* (31) (Exhibit 10.49(B))
10.42	Form of Restricted Stock Unit Grant for Managers* (31) (Exhibit 10.50(A))
10.43	Restricted Stock Unit Grant Terms and Conditions for Managers* (31) (Exhibit 10.50(B))
10.44	Restricted Stock Grant made by Aqua America, Inc. to Nicholas DeBenedictis dated December 6, 2011* (24) (Exhibit 10.57)
10.45	Restricted Stock Unit Grant made by Aqua America, Inc. to Nicholas DeBenedictis dated February 27, 2013* (29) (Exhibit 10.66)
10.46	Performance-Based Share Unit Grant by Aqua America, Inc. to Nicholas DeBenedictis dated February 27, 2013* (29) (Exhibit 10.67)
10.47	Form of Performance-Based Share Unit Grant for Chief Executive Officer* (31) (Exhibit 10.51(A))
10.48	Performance-Based Share Unit Grant Terms and Conditions for Chief Executive Officer* (31) (Exhibit 10.51(B))
10.49	Form of Restricted Stock Unit Grant for Chief Executive Officer* (31) (Exhibit 10.52(A))
10.50	Restricted Stock Unit Grant Terms and Conditions for Chief Executive Officer* (31) (Exhibit 10.52(B))
10.51	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2011)* (24) (Exhibit 10.58)
10.52	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2011)* (24) (Exhibit 10.59)
10.53	Aqua America, Inc. 2012 Employee Stock Purchase Plan* (25) (Appendix C)
10.54	Bond Purchase Agreement among Aqua Pennsylvania, Inc., John Hancock Life Insurance Company (U.S.A.), John Hancock Life Insurance Company of New York, John Hancock Life & Health Insurance Company, The Lincoln National Life Insurance Company, Thrivent Financial for Lutherans, United Insurance Company of America, Equitable Life & Casualty Insurance Company, Catholic United Financial, and Great Western Insurance Company, dated October 24, 2013 (30) (Exhibit 10.45)
10.55	First Amendment to Revolving Credit Agreement between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank, dated as of January 31, 2013 (34) (Exhibit 10.53)
10.56	Second Amendment to Revolving Credit Agreement between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank, dated as of August 20, 2014 (34) (Exhibit 10.54)
10.57	Fourth Amendment to Revolving Credit Agreement between Aqua Pennsylvania, Inc. and PNC Bank, National Association, TD Bank, N.A., Citizens Bank of Pennsylvania, and Huntington National Bank, dated as of September 29, 2014
10.58	Bond Purchase Agreement among Aqua Pennsylvania, Inc., Thrivent Financial for Lutherans, State Farm Life Insurance Company, John Hancock Life Insurance Company (U.S.A.), Phoenix Life Insurance Company, PHL Variable Insurance Company, United of Omaha Life Insurance Company, Mutual of Omaha Insurance Company, and Companion Life Insurance Company, dated December 29, 2014
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2014 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2014
21.1	Subsidiaries of Aqua America, Inc.
23.1	Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRES	XBRL Taxonomy Extension Presentation Linkbase Document

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, copies of specific instruments defining the rights of holders of long-term debt of the Company or its subsidiaries are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

*Indicates management contract or compensatory plan or arrangement.

Notes -
Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992.
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (4) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (5) Filed on May 10, 1995 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (6) Filed on March 25, 1997 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (7) Filed on March 23, 1998 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1997.
- (8) Filed on March 29, 2000 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.
- (9) Filed on March 20, 2002 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2001.
- (10) Filed on November 13, 2003 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- (11) Filed on August 4, 2005 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (12) Filed on March 14, 2006 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2005.
- (13) Filed on May 8, 2007 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
- (14) Filed on February 27, 2008 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2007.
- (15) Filed on December 10, 2008 as an Exhibit to Registration Statement on Form S-8
- (16) Filed on February 27, 2009 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2008.
- (17) Filed on August 6, 2009 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
- (18) Filed as an Exhibit to Form 8-K filed on February 4, 2010.
- (19) Filed on February 26, 2010 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2009.
- (20) Filed as an Exhibit to Form 8-K filed on October 7, 2010.
- (21) Filed on February 25, 2011 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2010.
- (22) Filed on May 9, 2011 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.
- (23) Filed on November 4, 2011 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.
- (24) Filed on February 27, 2012 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2011.
- (25) Filed as Appendix C to Proxy Statement on Schedule 14A filed on March 30, 2012.
- (26) Filed on May 7, 2012 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
- (27) Filed as an Exhibit to Form 8-K filed on May 11, 2012.
- (28) Filed on February 28, 2013 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2012.

- (29) Filed on May 6, 2013 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.
- (30) Filed on March 3, 2014 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2013.
- (31) Filed on May 8, 2014 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.
- (32) Filed as an Exhibit to Form 8-K filed on May 12, 2014.
- (33) Filed on August 1, 2014 as a Registration Statement on Form S-3.
- (34) Filed on November 6, 2014 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.

Prepared by and Return to:
Mary T. Tomich, Esq.
Dilworth Paxson LLP
1500 Market Street
Suite 3500E
Philadelphia, PA 19102
215-575-7000

**FORTY-NINTH SUPPLEMENTAL
INDENTURE**

DATED AS OF DECEMBER 1, 2014

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

AQUA PENNSYLVANIA, INC.

TO

THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A., as Trustee

FORTY-NINTH SUPPLEMENTAL INDENTURE dated as of December 1, 2014, by and between AQUA PENNSYLVANIA, INC. (f/k/a Pennsylvania Suburban Water Company), a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company") as successor by merger to the Philadelphia Suburban Water Company (the "Original Company"), party of the first part, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N. A., a national banking association (the "Trustee"), party of the second part.

WHEREAS, the Original Company heretofore duly executed and delivered to The Pennsylvania Company for Insurances on Lives and Granting Annuities, as trustee, an Indenture of Mortgage dated as of January 1, 1941 (the "Original Indenture"), which by reference is hereby made a part hereof, and in and by the Original Indenture the Original Company conveyed and mortgaged to such trustee certain property therein described, to secure the payment of its bonds to be generally known as its "First Mortgage Bonds" and to be issued under the Original Indenture in one or more series as therein provided; and

WHEREAS, through a series of mergers, changes of names and successions, The Bank of New York Mellon Trust Company, N. A. became the successor trustee; such mergers, changes of name and successions not involving any change in the title, powers, rights or duties of the trustee, as trustee under the Original Indenture as supplemented at the respective dates thereof; and

WHEREAS, the Original Company duly executed and delivered to the Trustee thirty-four supplemental indentures supplemental to the Original Indenture, and the Company duly executed and delivered to the Trustee thirteen supplemental indentures to the Original Indenture so as to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

WHEREAS, pursuant to an Agreement and Plan of Merger and Reorganization dated December 20, 2001, and effective on January 1, 2002, the Original Company agreed to merge, in conjunction with its affiliated corporations, Consumers Pennsylvania Water Company – Shenango Valley Division, Consumers Pennsylvania Water Company – Roaring Creek Division, Consumers Pennsylvania Water Company – Susquehanna Division, Waymart Water Company, Fawn Lake Forrest Water Company, Western Utilities, Inc., and Northeastern Utilities, Inc. (such affiliates referred to hereinafter as the "Merging Entities") with and into the Company; and

WHEREAS, pursuant to the Thirty-Fifth Supplemental Indenture dated as of January 1, 2002 (the "Thirty-Fifth Supplemental Indenture"), the Company agreed to assume the obligations of the Original Company under the Original Indenture and all supplements thereto; and

WHEREAS, the Company has issued under the Original Indenture, as supplemented at the respective dates of issue, sixty-seven series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

<u>Designation</u>	<u>Indenture</u>	<u>Amount</u>
3 1/4% Series due 1971	Original	\$ 16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000
9.97% Series due 2018	Twenty-Fourth Supplemental	5,000,000
9.17% Series due 2021	Twenty-Sixth Supplemental	8,000,000
6.35% Series due 2025	Thirtieth Supplemental	22,000,000
9.29% Series due 2026	Twenty-Sixth Supplemental	12,000,000
1995 Medium Term Note Series	Twenty-Ninth Supplemental	77,000,000
7.72% Subseries A due 2025	15,000,000	
6.82% Subseries B due 2005	10,000,000	
6.89% Subseries C due 2015	12,000,000	
6.99% Subseries D due 2006	10,000,000	
7.47% Subseries E due 2003	10,000,000	

6.83% Subseries F due 2003	10,000,000
7.06% Subseries G due 2004	10,000,000

1997 Medium Term Note Series	Thirty-First Supplemental	65,000,000
6.75% Subseries A due 2007	10,000,000	

2002	6.30% Subseries B due	10,000,000	
2008	6.14% Subseries C due	10,000,000	
2003	5.80% Subseries D due	10,000,000	
2004	5.85% Subseries E due	10,000,000	
2004	6.00% Subseries F due	15,000,000	
	6.00% Series due 2029	Thirty-Second Supplemental	25,000,000
	1999 Medium Term Note Series	Thirty-Third Supplemental	222,334,480
	7.40% Subseries A due	15,000,000	
2005	7.40% Subseries B due 2005	11,000,000	
	6.21% Subseries C due 2011	15,000,000	
	9.53% Subseries D due 2019	4,000,000	
	6.375% Subseries E due 2023	14,000,000	
	8.26% Subseries F due 2022	1,500,000	
	9.50% Subseries G due 2006	1,440,000	
	9.22% Subseries H due 2019	2,534,480	
	8.32% Subseries I due 2022	3,500,000	
	8.14% Subseries J due 2025	4,000,000	
	6.00% Subseries K due 2030	18,360,000	
	5.93% Subseries L due 2012	25,000,000	
	2.65% Subseries M due 2006	5,000,000	
	3.461% Subseries N due 2007	12,000,000	
	5.08% Subseries O due 2015	20,000,000	
	5.17% Subseries P due 2017	7,000,000	
	5.751% Subseries Q due 2019	15,000,000	
	5.751% Subseries R due 2019	5,000,000	
	6.06% Subseries S due 2027	15,000,000	
	6.06% Subseries T due 2027	5,000,000	
	5.98% Subseries U due 2028	3,000,000	
	5.35% Series due 2031	Thirty-Fourth Supplemental	30,000,000
	5.55% Series due 2032	Thirty-Sixth Supplemental	25,000,000
	3.75% Series due 2010	Thirty-Seventh Supplemental	3,200,000
	5.15% Series due 2032	Thirty Seventh Supplemental	25,000,000
	5.05% Series due 2039	Thirty-Eighth Supplemental	14,000,000
	5.00% Series due 2036	Thirty-Ninth Supplemental	21,770,000
	5.00% Series due 2037	Thirty-Ninth Supplemental	24,165,000
	5.00% Series due 2038	Thirty-Ninth Supplemental	25,375,000
	5.00% Series due 2035	Fortieth Supplemental	24,675,000
	5.00% Series due 2040	Forty-first Supplemental	23,915,000
	5.00% Series due 2041	Forty-first Supplemental	23,915,000
	5.25% Series due 2042	Forty-second Supplemental	24,830,000
	5.25% Series due 2043	Forty-second Supplemental	24,830,000
	6.25% Series due 2017	Forty-third Supplemental	9,000,000
	6.75% Series due 2018	Forty-third Supplemental	13,000,000
	5.00% Series due 2039	Forty-fourth Supplemental	58,000,000
	5.00% Series due 2040	Forty-fifth Supplemental	62,165,000
	4.75% Series due 2040	Forty-fifth Supplemental	12,520,000
	5.00% Series due 2033	Forty-sixth Supplemental	25,910,000
	5.00% Series due 2034	Forty-sixth Supplemental	19,270,000
	4.50% Series due 2042	Forty-sixth Supplemental	15,000,000
	5.00% Series due 2043	Forty-sixth Supplemental	81,205,000
	3.79% Series due 2041	Forty-seventh Supplemental	40,000,000
	3.80% Series due 2042	Forty-seventh Supplemental	20,000,000

3.85% Series due 2047	Forty-seventh Supplemental	20,000,000
3.94% Series due 2031	Forty-eighth Supplemental	25,000,000
4.61% Series due 2045	Forty-eighth Supplemental	25,000,000
4.62% Series due 2046	Forty-eighth Supplemental	25,000,000

and

WHEREAS, the bonds of each of said series that are outstanding as of June 30, 2014 are listed on Exhibit A attached hereto and made a part hereof; and

WHEREAS, in order to secure the lien of the Original Indenture on the properties of the Original Company and the Company, the Original Indenture and the first forty-eight supplemental indentures supplemental to the Original Indenture were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the counties and in the Mortgage Books at the pages indicated in Exhibit B hereto; and

WHEREAS, the lien of the Original Indenture, as supplemented, has been perfected as a security interest under the Pennsylvania Uniform Commercial Code by filing a financing statement in the office of the Secretary of the Commonwealth; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Forty-ninth Supplemental Indenture, four series of bonds to be designated (i) "First Mortgage Bond, 3.64% Series due 2035" (herein referred to as the "3.64% Series due 2035") to be limited in aggregate principal amount to \$25,000,000, to bear interest at the rate of 3.64% per annum, and to mature on January 15, 2035, (ii) "First Mortgage Bond, 4.01% Series due 2040" (herein referred to as the "4.01% Series due 2040") to be limited in aggregate principal amount to \$15,000,000, to bear interest at the rate of 4.01% per annum, and to mature on January 15, 2040, (iii) "First Mortgage Bond, 4.06% Series due 2045" (herein referred to as the "4.06% Series due 2045") to be limited in aggregate principal amount to \$13,000,000, to bear interest at the rate of 4.06% per annum, and to mature on January 15, 2045, and (iv) "First Mortgage Bond, 4.11% Series due 2054" (herein referred to as the "4.11% Series due 2054") to be limited in aggregate principal amount to \$12,000,000, to bear interest at the rate of 4.11% per annum, and to mature on December 29, 2054 (the 3.64% Series due 2035, the 4.01% Series due 2040, the 4.06% Series due 2045 and the 4.11% Series due 2054 are collectively referred to as the "Bonds"), each such series to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

WHEREAS, the Company intends to use the proceeds of the Bonds for general corporate purposes; and

WHEREAS, the Company proposes to issue the Bonds under the provisions of Article IV of the Original Indenture, as supplemented by the indentures supplemental thereto, including this Forty-ninth Supplemental Indenture, and will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an

indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of the 3.64% Series due 2035, the 4.01% Series due 2040, the 4.06% Series due 2045 and the 4.11% Series due 2054 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-ninth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-ninth Supplemental Indenture), and has further duly authorized the execution, delivery and recording of this Forty-ninth Supplemental Indenture setting forth the terms and provisions of the 3.64% Series due 2035, the 4.01% Series due 2040, the 4.06% Series due 2045 and the 4.11% Series due 2054 insofar as said terms and provisions are not set forth in said Original Indenture; and

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the following form - the proper amount, names of registered owners and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Forty-ninth Supplemental Indenture to conform to any pertinent law or usage:

[continued on next page]

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR A NY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

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AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 3.64% Series due 2035

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the “Company”, which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to _____ or its registered assigns, on the 15th day of January, 2035 (the “Maturity Date”), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of December 29, 2014, between the Company and the Purchasers listed therein (the “Bond Purchase Agreement”), the sum of _____ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to July 15, 2015 from the date hereof) until the principal hereof shall become due and payable, at the rate of 3.64% per annum, payable semiannually in like coin or currency on the 15th day of January and the 15th day of July in each year, commencing July 15, 2015 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 5.64% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-ninth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 1st day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a “Record Date”) and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by

an Indenture of Mortgage (herein called the “Indenture”) dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the “Trustee”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-ninth Supplemental Indenture (the “Forty-ninth Supplemental Indenture”) dated as of December 1, 2014, and designated therein as “First Mortgage Bond, 3.64% Series due 2035” in the aggregate principal amount of \$25,000,000 (the “Bonds”).

Concurrently with the issuance of the Bonds, the Company is issuing its “First Mortgage Bond, 4.01% Series due 2040” in the aggregate principal amount of \$15,000,000, its “First Mortgage Bond, 4.06% Series due 2045” in the aggregate principal amount of \$13,000,000, and its “First Mortgage Bond, 4.11% Series due 2054” in the aggregate principal amount of \$12,000,000.

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal or of interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds,

in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-ninth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of the Bonds (the period from such date to the stated maturity of the Bonds being referred to herein as the "Prepayment Period"), the Company may, at its option, upon prior written notice as provided below, prepay all the Bonds at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount.

Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-ninth Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-ninth Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

The principal hereof may be declared or may become due prior to its Maturity Date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of bonds then outstanding, including the Bonds, to annul such declaration.

The Company, the Trustee and any Paying Agent may deem and treat the registered owner of this bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

This bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such

office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new bond or bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company, or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated _____.

AQUA PENNSYLVANIA, INC.

Attest:

Assistant Secretary

By _____
(Vice) President

[Form of Trustee's Certificate]

This bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-ninth Supplemental Indenture.

THE BANK OF NEW YORK
MELLON TRUST COMPANY,
N. A., TRUSTEE

By: _____
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a “qualified institutional buyer” (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a “qualified institutional buyer” as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a “qualified institutional buyer” as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR A NY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

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AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 4.01% Series due 2040

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the “Company”, which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to _____ or its registered assigns, on the 15th day of January, 2040 (the “Maturity Date”), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of December 29, 2014, between the Company and the Purchasers listed therein (the “Bond Purchase Agreement”), the sum of _____ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to July 15, 2015 from the date hereof) until the principal hereof shall become due and payable, at the rate of 4.01% per annum, payable semiannually in like coin or currency on the 15th day of January and the 15th day of July in each year, commencing July 15, 2015 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 6.01% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-ninth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 1st day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a “Record Date”) and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by

an Indenture of Mortgage (herein called the “Indenture”) dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the “Trustee”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-ninth Supplemental Indenture (the “Forty-ninth Supplemental Indenture”) dated as of December 1, 2014, and designated therein as “First Mortgage Bond, 4.01% Series due 2040” in the aggregate principal amount of \$15,000,000 (the “Bonds”).

Concurrently with the issuance of the Bonds, the Company is issuing its “First Mortgage Bond, 3.64% Series due 2035” in the aggregate principal amount of \$25,000,000, its “First Mortgage Bond, 4.06% Series due 2045” in the aggregate principal amount of \$13,000,000, and its “First Mortgage Bond, 4.11% Series due 2054” in the aggregate principal amount of \$12,000,000.

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal or of interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds,

in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-ninth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of the Bonds (the period from such date to the stated maturity of the Bonds being referred to herein as the "Prepayment Period"), the Company may, at its option, upon prior written notice as provided below, prepay all the Bonds at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount. Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-ninth Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-ninth Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

The principal hereof may be declared or may become due prior to its Maturity Date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of bonds then outstanding, including the Bonds, to annul such declaration.

The Company, the Trustee and any Paying Agent may deem and treat the registered owner of this bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

This bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the

Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new bond or bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company, or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated _____.

AQUA PENNSYLVANIA, INC.

Attest:

Assistant Secretary

By _____
(Vice) President

[Form of Trustee's Certificate]

This bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-ninth Supplemental Indenture.

THE BANK OF NEW YORK
MELLON TRUST COMPANY,
N. A., TRUSTEE

By: _____
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR A NY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

No.
R-
\$ _____

[PPN]

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 4.06% Series due 2045

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the “Company”, which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to _____ or its registered assigns, on the 15th day of January, 2045 (the “Maturity Date”), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of December 29, 2014, between the Company and the Purchasers listed therein (the “Bond Purchase Agreement”), the sum of _____ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to July 15, 2015 from the date hereof) until the principal hereof shall become due and payable, at the rate of 4.06% per annum, payable semiannually in like coin or currency on the 15th day of January and the 15th day of July in each year, commencing July 15, 2015 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 6.06% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-ninth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 1st day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a “Record Date”) and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by

an Indenture of Mortgage (herein called the “Indenture”) dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the “Trustee”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-ninth Supplemental Indenture (the “Forty-ninth Supplemental Indenture”) dated as of December 1, 2014, and designated therein as “First Mortgage Bond, 4.06% Series due 2045” in the aggregate principal amount of \$13,000,000 (the “Bonds”).

Concurrently with the issuance of the Bonds, the Company is issuing its “First Mortgage Bond, 3.64% Series due 2035” in the aggregate principal amount of \$25,000,000, its “First Mortgage Bond, 4.01% Series due 2040” in the aggregate principal amount of \$15,000,000, and its “First Mortgage Bond, 4.11% Series due 2054” in the aggregate principal amount of \$12,000,000.

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal or of interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds,

in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-ninth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of the Bonds (the period from such date to the stated maturity of the Bonds being referred to herein as the "Prepayment Period"), the Company may, at its option, upon prior written notice as provided below, prepay all the Bonds at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount. Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-ninth Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-ninth Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

The principal hereof may be declared or may become due prior to its Maturity Date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of bonds then outstanding, including the Bonds, to annul such declaration.

The Company, the Trustee and any Paying Agent may deem and treat the registered owner of this bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

This bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the

Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new bond or bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company, or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated _____.

AQUA PENNSYLVANIA, INC.

Attest:

Assistant Secretary

By _____
(Vice) President

[Form of Trustee's Certificate]

This bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-ninth Supplemental Indenture.

THE BANK OF NEW YORK
MELLON TRUST COMPANY,
N. A., TRUSTEE

By: _____
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

THIS BOND HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), AND SALES OR OTHER TRANSFERS HEREOF MAY BE MADE ONLY TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A UNDER THE ACT ("QUALIFIED INSTITUTIONAL BUYERS"), IN TRANSACTIONS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION UNDER THE ACT.

BY ITS ACCEPTANCE OF THIS BOND, THE HOLDER REPRESENTS AND AGREES THAT IT IS A QUALIFIED INSTITUTIONAL BUYER AND THAT THIS BOND IS BEING ACQUIRED FOR ITS OWN ACCOUNT (AND NOT FOR THE ACCOUNT OF OTHERS) OR AS A FIDUCIARY FOR OTHERS FOR INVESTMENT AND NOT WITH A VIEW TO, OR FOR SALE IN CONNECTION WITH, THE PUBLIC DISTRIBUTION HEREOF IN ANY TRANSACTION THAT WOULD BE IN VIOLATION OF FEDERAL OR STATE SECURITIES LAWS, AND THAT ANY RESALE OR OTHER TRANSFER HEREOF OR ANY INTEREST HEREIN PRIOR TO THE DATE THAT IS TWO YEARS AFTER THE LATER OF (A) ITS DATE OF ISSUE OR (B) THE LAST DATE ON WHICH THE COMPANY OR ANY OF ITS AFFILIATES WAS THE BENEFICIAL OWNER HEREOF WILL BE MADE ONLY (1) TO A PLACEMENT AGENT OR THE COMPANY, (2) THROUGH ANY PLACEMENT AGENT OR BY ANY PLACEMENT AGENT ACTING AS PRINCIPAL TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE APPROVED BY SUCH PLACEMENT AGENT, (3) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER APPROVED BY THE COMPANY IN A TRANSACTION APPROVED BY THE COMPANY, (4) THROUGH A DEALER OTHER THAN A PLACEMENT AGENT TO A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE IN A TRANSACTION APPROVED BY THE COMPANY, OR (5) DIRECTLY TO A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION THAT MEETS THE REQUIREMENTS OF RULE 144A UNDER THE ACT, SUBJECT TO IN EACH CASE THE DISPOSITION OF THE PURCHASER'S PROPERTY BEING AT ALL TIMES WITHIN ITS CONTROL. IN THE CASE OF CERTIFICATED BONDS, ANY TRANSFER DESCRIBED IN CLAUSE (3), (4) OR (5) ABOVE REQUIRES THE SUBMISSION TO THE TRUSTEE (AS DEFINED HEREIN) OR A NY DULY AUTHORIZED PAYING AGENT OF THE CERTIFICATE OF TRANSFER ATTACHED HERETO DULY COMPLETED OR A DULY COMPLETED TRANSFER INSTRUMENT SUBSTANTIALLY IN THE FORM OF THE CERTIFICATE OF TRANSFER. THE COMPANY SHALL NOT RECOGNIZE ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER TRANSFER, OF THIS BOND NOT MADE IN COMPLIANCE WITH THE FOREGOING PROVISIONS. THIS BOND AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON THE PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS BOND TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR PROVIDE ALTERNATIVE PROCEDURES IN COMPLIANCE WITH APPLICABLE LAW AND PRACTICES RELATING TO THE RESALE OR OTHER TRANSFER OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS BOND SHALL BE DEEMED, BY THE ACCEPTANCE OF THIS BOND, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

No.
R-
\$ _____

[PPN]

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 4.11% Series due 2054

Aqua Pennsylvania, Inc. (f/k/a known as Pennsylvania Suburban Water Company, successor by merger to Philadelphia Suburban Water Company), a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (hereinafter called the “Company”, which term shall include any successor corporation as defined in the Indenture hereinafter referred to), for value received, hereby promises to pay to _____ or its registered assigns, on the 29th day of December, 2054 (the “Maturity Date”), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of December 29, 2014, between the Company and the Purchasers listed therein (the “Bond Purchase Agreement”), the sum of _____ Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon to the registered owner hereof by wire transfer of immediately available funds in accordance with Section 11.1 of the Bond Purchase Agreement to such registered owner from the interest payment date next preceding the date of the authentication of this bond (or if this bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this bond is authenticated on or prior to July 15, 2015 from the date hereof) until the principal hereof shall become due and payable, at the rate of 4.11% per annum, payable semiannually in like coin or currency on the 15th day of January and the 15th day of July in each year, commencing July 15, 2015 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 6.11% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-ninth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the 1st day of the calendar month in which the interest payment date occurs whether or not such day is a business day (a “Record Date”) and principal, premium, if any, and interest on this bond shall be paid by the Company in accordance with written payment instructions of the registered owner delivered to the Company on or before such record date.

This bond is one of a duly authorized issue of bonds of the Company known as its First Mortgage Bonds, issued and to be issued without limitation as to aggregate principal amount except as set forth in the Indenture hereinafter mentioned in one or more series and equally secured (except insofar as a sinking fund or other similar fund established in accordance with the provisions of the Indenture may afford additional security for the bonds of any specific series) by

an Indenture of Mortgage (herein called the “Indenture”) dated as of January 1, 1941, executed by the Philadelphia Suburban Water Company (now Aqua Pennsylvania, Inc., f/k/a Pennsylvania Suburban Water Company, as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by The Bank of New York Mellon Trust Company, N.A.), as Trustee (the “Trustee”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and premium, if any, and interest on this bond as herein provided. As provided in the Indenture, the bonds may be issued in series for various principal amounts, may bear different dates and mature at different times, may bear interest at different rates and may otherwise vary as in the Indenture provided or permitted. This bond is one of the bonds described in the Forty-ninth Supplemental Indenture (the “Forty-ninth Supplemental Indenture”) dated as of December 1, 2014, and designated therein as “First Mortgage Bond, 4.11% Series due 2054” in the aggregate principal amount of \$12,000,000 (the “Bonds”).

Concurrently with the issuance of the Bonds, the Company is issuing its “First Mortgage Bond, 3.64% Series due 2035” in the aggregate principal amount of \$25,000,000, its “First Mortgage Bond, 4.01% Series due 2040” in the aggregate principal amount of \$15,000,000, and its “First Mortgage Bond, 4.06% Series due 2045” in the aggregate principal amount of \$13,000,000.

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of bonds; provided, however, that no such modification or alteration shall be made which shall reduce the percentage of bonds the consent of the holders or registered owners of which is required for any such modification or alteration or which shall affect the terms of payment of the principal or of interest on the bonds, or permit the creation by the Company of any lien prior to or on a parity with the lien of the Indenture with respect to any property subject to the lien of the Indenture as a first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds,

in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined in the Forty-ninth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of the Bonds (the period from such date to the stated maturity of the Bonds being referred to herein as the "Prepayment Period"), the Company may, at its option, upon prior written notice as provided below, prepay all the Bonds at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount. Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days and not more than forty-five (45) days before the redemption date, all on the conditions and in the manner provided in the Indenture. Each such notice shall specify such date (which shall be a Business Day (as defined in the Forty-ninth Supplemental Indenture)), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each bond held by such holder to be redeemed (determined in accordance with Article I, Section 3 of the Forty-ninth Supplemental Indenture), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this bond, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the redemption date. In the event of redemption of this bond in part only, a new bond for the unredeemed portion hereof shall be issued in the name of the holder hereof upon the surrender hereof.

The principal hereof may be declared or may become due prior to its Maturity Date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of bonds then outstanding, including the Bonds, to annul such declaration.

The Company, the Trustee and any Paying Agent may deem and treat the registered owner of this bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

This bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in Philadelphia, Pennsylvania upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the

Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new bond or bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the Company or of any predecessor or successor corporation, as such, either directly or through the Company, or through any such predecessor or successor corporation or through any receiver or trustee in bankruptcy, by virtue of any constitutional provision, statute or rule of law or equity, or by the enforcement of any assessment or penalty or otherwise; all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released by every holder or registered owner hereof, as more fully provided in the Indenture.

This bond shall not be entitled to any benefit under the Indenture or any indenture supplemental thereto, or become valid or obligatory for any purpose, until The Bank of New York Mellon Trust Company, N. A., as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This bond shall be deemed to be a contract and shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania (excluding laws governing conflicts of law).

IN WITNESS WHEREOF, Aqua Pennsylvania, Inc. has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated _____.

AQUA PENNSYLVANIA, INC.

Attest:

Assistant Secretary

By _____
(Vice) President

[Form of Trustee's Certificate]

This bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Forty-ninth Supplemental Indenture.

THE BANK OF NEW YORK
MELLON TRUST COMPANY,
N. A., TRUSTEE

By: _____
Authorized Officer

[Form of Certificate of Transfer]

(To be delivered with a Certificated Bond to the Trustee)

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

(please print or typewrite name and address including postal zip code of assignee and insert Taxpayer Identification No.)

this bond and all rights hereunder, hereby irrevocably constituting and appointment attorney to transfer this bond the books of the Company with full power of substitution in the premises.

CERTIFICATE OF TRANSFER

(The following is not required for sales or other transfers of this bond to or through the Company or a placement agent).

In connection with any transfer of this bond occurring prior to the date which is two years after the later of (a) the date of original issue of this bond, or (b) the last date the Company or any of its affiliates was the beneficial owner of this bond, the undersigned confirms that:

This bond is being transferred by the undersigned to a transferee that is, or that the undersigned reasonably believes to be, a "qualified institutional buyer" (as defined in Rule 144A under the Securities Act of 1933, as amended) pursuant to the exemption from registration under the Securities Act of 1933, as amended, provided by Rule 144A thereunder.

If the foregoing box is not checked, then, so long as the accompanying bond shall bear a legend on its face restricting resales and other transfers thereof (except in the case of a resale or other transfer made (i) to a placement agent referred to in such legend or to the Company or (ii) through a placement agent or by a placement agent acting as principal to a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, in a transaction approved by a placement agent) the Trustee shall not be obligated to register this bond in the name of any person other than the registered owner hereof.

Dated:

NOTICE: The signature of the beneficial owner to this assignment must correspond with the name as written on the face of this bond in every particular, without alteration or enlargement or any change whatsoever.

TO BE COMPLETED BY PURCHASER IF THE BOX ABOVE IS CHECKED:

The undersigned represents and warrants that it is a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933, as amended, and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the registered owner is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

NOTICE: To be executed by an officer.

and;

WHEREAS, all acts and things necessary to make the bonds, when executed by the Company and authenticated and delivered by the Trustee as in this Forty-ninth Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-ninth Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-ninth Supplemental Indenture has been in all respects duly authorized:

NOW, THEREFORE, THIS FORTY-NINTH SUPPLEMENTAL INDENTURE WITNESSETH: That, in order to secure the payment of the principal and interest of all bonds issued under the Original Indenture and all indentures supplemental thereto, according to their tenor and effect, and according to the terms of the Original Indenture and of any indenture supplemental thereto, and to secure the performance of the covenants and obligations in said bonds and in the Original Indenture and any indenture supplemental thereto respectively contained, and to provide for the proper issuing, conveying and confirming unto the Trustee, its successors in said trust and its and their assigns forever, upon the trusts and for the purposes expressed in the Original Indenture and in any indenture supplemental thereto, all and singular the estates, property and franchises of the Company thereby mortgaged or intended so to be, the Company, for and in consideration of the premises and of the sum of One Dollar (\$1.00) in hand paid by the Trustee to the Company upon the execution and delivery of this Forty-ninth Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, has granted, bargained, sold, aliened, enfeoffed, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto The Bank of New York Mellon Trust Company, N. A. as Trustee, and to its successors in said trust and its and their assigns forever:

All and singular the premises, property, assets, rights and franchises of the Company, whether now or hereafter owned, constructed or acquired, of whatever character and wherever situated (except as herein expressly excepted), including among other things the following, but reference to or enumeration of any particular kinds, classes, or items of property shall not be deemed to exclude from the operation and effect of the Original Indenture or any indenture supplemental thereto any kind, class or item not so referred to or enumerated:

I.

REAL ESTATE AND WATER RIGHTS.

The real estate described in the deeds from the grantors named in Exhibit C hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Forty-eighth Supplemental Indenture.

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

It is hereby declared by the Company that all property of the kinds described in the next preceding paragraph, whether now owned or hereafter acquired, has been or is or will be owned or acquired with the intention of using the same in carrying on the business or branches of the business of the Company, and it is hereby declared that it is the intention of the Company that all thereof (except property hereinafter specifically excepted) shall be subject to the lien of the Original Indenture.

It is agreed by the Company that so far as may be permitted by law tangible personal property now owned or hereafter acquired by the Company, except such as is hereafter expressly excepted from the lien hereof, shall be deemed to be and construed as fixtures and appurtenances to the real property of the Company.

III.

FRANCHISES AND RIGHTS OF WAY.

All the corporate and other franchises of the Company, all water and flowage rights, riparian rights, easements and rights of way, and all permits, licenses, rights, grants, privileges and immunities, and all renewals, extensions, additions or modifications of any of the foregoing, whether the same or any thereof, or any renewals, extensions, additions or modifications thereof, are now owned or may hereafter be acquired, owned, held, or enjoyed by the Company.

IV.

AFTER ACQUIRED PROPERTY.

All real and fixed property and all other property of the character hereinabove described which the Company may hereafter acquire.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): all bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing expected property which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section I of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

SUBJECT, HOWEVER, to the exceptions, reservations and matters hereinabove and in the Original Indenture recited, to releases executed since the date of the Original Indenture in accordance with the provisions thereof, to existing leases, to easements and rights of way for pole lines and electric transmission lines and other similar encumbrances and restrictions which the Company hereby certifies, in its judgment, do not impair the use of said property by the Company in its business, to liens existing on or claims against, and rights in and relating to, real estate acquired for right-of-way purposes, to taxes and assessments not delinquent, to alleys, streets and highways that may run across or encroach upon said lands, to liens, if any, incidental to construction, and to Permitted Liens, as defined in the Original Indenture; and, with respect to any property which the Company may hereafter acquire, to all terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in such deeds and other instruments,

respectively, under and by virtue of which the Company shall hereafter acquire the same and to any and all liens existing thereon at the time of such acquisition.

TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every entity who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

ARTICLE I.

Form, Authentication and Delivery of the Bonds; Redemption Provisions

SECTION 1. There shall be a sixty-eighth series limited in aggregate principal amount to \$25,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 3.64% Series due 2035," a sixty-ninth series of bonds limited in aggregate principal amount to \$15,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 4.01% Series due 2040," a seventieth series of bonds limited in aggregate principal to \$13,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 4.06% Series due 2045" and a seventy-first series of bonds limited in aggregate principal amount to \$12,000,000 designated as "Aqua Pennsylvania, Inc., First Mortgage Bond, 4.11% Series due 2054".

Interest on each Series of the Bonds shall be payable semiannually on January 15 and July 15 (each an "Interest Payment Date") in each year commencing July 15, 2015. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding the date of the authentication of such Bond (or if such Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if such Bond is authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from the date of original issuance of the Bonds); provided, however, that, if at the time of authentication of any

Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from the date of original issuance thereof. The 3.64% Series due 2035 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on January 15, 2035 and shall bear interest at the rate of 3.64% per annum. The 4.01% Series due 2040 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on January 15, 2040 and shall bear interest at the rate of 4.01% per annum. The 4.06% Series due 2045 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on January 15, 2045 and shall bear interest at the rate of 4.06% per annum. The 4.11% Series due 2054 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on December 29, 2054 and shall bear interest at the rate of 4.11% per annum. Any payment of principal of or interest on any Bond that is due on a date other than a Business Day (as defined below) shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day. As used herein, "Business Day" means any day other than a Saturday or Sunday, on which the Trustee, any paying agent or banks in New York, New York are not required or authorized by law or executive order to close.

The Bonds shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the minimum denomination of \$100,000 or any integral multiple of \$1,000 in excess thereof, shall be lettered "R", and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable as provided in the form of Bond, and shall be payable, along with interest on the Bonds, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; each installment of interest shall be paid by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such Interest Payment Date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen (15) days preceding such subsequent Record Date, such Record Date to be not less than ten (10) days preceding the date of payment of such defaulted interest. The term "Record Date" as used in this Section 1 with respect to any regular Interest Payment Date shall mean the fifteenth (15th) day of the calendar month preceding such Interest Payment Date.

Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture.

The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

SECTION 2. Except as otherwise provided in the succeeding paragraph with respect to optional redemption during the Prepayment Period (as defined herein), the Company may, at its option, upon notice as provided below, redeem at any time all, or from time to time any part of, the Bonds, in an amount not less than 10% of the aggregate principal amount of the Bonds then outstanding in the case of a partial redemption, at 100% of the principal amount so redeemed, together with interest accrued thereon to the date of such redemption, plus the Make-Whole Amount (as defined below) determined for the redemption date with respect to such principal amount of each Bond being redeemed.

Provided that no default or event of default has occurred and is continuing, within one hundred and eighty days (180) days of the stated maturity date of any series of Bonds (the period from such date to the stated maturity of such series of Bonds being referred to herein as the "Prepayment Period"), the Company may, at its option, upon prior written notice as provided below, prepay all Bonds of such series at 100% of the principal amount so prepaid, together with interest on such principal amount accrued to the date of prepayment and without any Make-Whole Amount.

The Company will give each holder of Bonds and the Trustee written notice of each optional redemption under this Section 2 not less than 30 days and not more than 45 days prior to the date fixed for such prepayment. Each such notice shall specify such date (which shall be a Business Day), the aggregate principal amount of the Bonds to be redeemed on such date, the principal amount of each Bond held by such holder to be redeemed (determined in accordance with Section 3 below), and the interest to be paid on the redemption date with respect to such principal amount being redeemed, and shall be accompanied by a certificate of the chief financial officer, principal accounting officer, treasurer or comptroller (each, for purposes of this Article I, a "Senior Financial Officer") of the Company as to the estimated Make-Whole Amount due in connection with such redemption (calculated as if the date of such notice were the date of the redemption), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Bonds and the Trustee a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified redemption date.

The term "Make-Whole Amount" means, with respect to any Bond, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Bond over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Bond, the principal of such Bond that is to be prepaid pursuant to this Section 2.

"Discounted Value" means, with respect to the Called Principal of any Bond, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called

Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Bonds is payable) equal to the Reinvestment Yield with respect to such Called Principal.

“Reinvestment Yield” means, with respect to the Called Principal of any Bond, 0.50% over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as “Page PX1” (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on-the-run U.S. Treasury securities (“Reported”) having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there are no such U.S. Treasury securities Reported having a maturity equal to such Remaining Average Life, then such implied yield to maturity will be determined by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between the yields Reported for the applicable most recently issued actively traded on-the-run U. S. Treasury securities with the maturities (1) closest to and greater than such Remaining Average Life and (2) closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Bond.

If such yields are not Reported or the yields Reported as of such time are not ascertainable (including by way of interpolation), then “Reinvestment Yield” means, with respect to the Called Principal of any Bond, 0.50% over the yield to maturity implied by the U.S. Treasury constant maturity yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for the U.S. Treasury constant maturity having a term equal to the Remaining Average Life of such Called Principal as of such Settlement Date. If there is no such U.S. Treasury constant maturity having a term equal to such Remaining Average Life, such implied yield to maturity will be determined by interpolating linearly between (1) the U.S. Treasury constant maturity so reported with the term closest to and greater than such Remaining Average Life and (2) the U.S. Treasury constant maturity so reported with the term closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

“Remaining Average Life” means, with respect to any Called Principal, the number of years obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years, computed on the basis of a 360 day year composed of twelve 30 day months and calculated to two decimal places, that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

“Remaining Scheduled Payments” means, with respect to the Called Principal of any Bond, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the Bonds, then the amount of the next succeeding

scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to this Section 2.

“Settlement Date” means, with respect to the Called Principal of any Bond, the date on which such Called Principal is to be redeemed pursuant to this Section 2.

SECTION 3. In the case of each partial redemption of the Bonds, the principal amount of the Bonds to be redeemed shall be allocated among all of the Bonds at the time outstanding in proportion, as nearly as practicable, to their respective unpaid principal amounts thereof.

SECTION 4. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 5. All Bonds deemed to have been paid in full as provided in Section 2 and 3 of this Article I of this Forty-ninth Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee’s policies and procedures, and on the written request of the Company, deliver the same to the Company. Any Bond paid in full, whether at maturity or earlier redemption, shall be surrendered to the Company and cancelled and shall not be reissued, and no Bond shall be issued in lieu of the principal amount of such Bond paid at maturity or redemption. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 2 or Section 3, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond. The holder of a Bond that has been partially paid, shall not be required to surrender such Bond to the Trustee or the Company; provided, however, prior to any sale or other disposition of any Bond by a holder thereof, such holder will either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Original Indenture.

SECTION 6. The 3.64% Series due 2035 in the aggregate principal amount of \$25,000,000, the 4.01% Series due 2040 in the aggregate principal amount of \$15,000,000, the 4.06% Series due 2045 in the aggregate principal amount of \$13,000,000 and the 4.11% Series due 2054 in the aggregate principal amount of \$12,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

ARTICLE II.

Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025 and the 6.89% Subseries C due 2015) shall cease to be outstanding, or on or before March 1 next occurring after the bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 8.14% Subseries J due 2025, the 5.08% Subseries O due 2015, the 5.17% Subseries P due 2017, the 5.751% Subseries Q due 2019, the 5.751% Subseries R due 2019, the 6.06% Subseries S due 2027, the 6.06% Subseries T due 2027 and the 5.98% Subseries U due 2028) cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.05% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2036 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2037 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2038 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2035 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2041 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.25% Series due 2043 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.25% Series due 2017 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 6.75% Series due 2018 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2033 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2034 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2039 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.75% Series due 2040 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.50% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.00% Series due 2043 cease to be outstanding, or on or before March 1, next occurring after the bonds of the 3.79% Series due 2041 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 3.80% Series due 2042 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 3.85% Series due 2047 cease to be outstanding, or on or before March 1, next occurring after the bonds of the 3.94% Series due 2031 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.61% Series due 2045 cease to be outstanding, or on or before March 1 next occurring after the bonds of the 4.62% Series due 2046 cease to be outstanding, whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating

Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

- (a) the amount actually expended for maintenance during such calendar year; and
- (b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and
- (c) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

SECTION 2. The Company covenants that it will on or before March 1 in each year, beginning with the first deposit made with the Trustee under the provisions of Section 1 of this Article, as long as any of the Bonds are outstanding, deliver to the Trustee the following:

- (A) An Officers' Certificate, which shall state:
 - (i) The amount of the Gross Operating Revenues for the preceding calendar year;
 - (ii) 9% of such Gross Operating Revenues;
 - (iii) The amount actually expended by the Company for maintenance during such calendar year;
 - (iv) The amount set forth in subparagraph (ii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;
 - (v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);

(vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

(vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;

(viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;

(ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;

(x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;

(xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

(xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and

(xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture.

(C) An amount in cash equal to the sum set forth in subparagraph (viii) of the Officers' Certificate provided for in paragraph (A) hereof.

SECTION 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of bonds under the provisions of Section 2 of Article X of the Original

Indenture or to the redemption of bonds under the provisions of Section 3 of Article X of the Original Indenture or may be withdrawn by the Company at any time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

- (a) A Resolution requesting such payment; and
- (b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

ARTICLE III.

Covenants of the Company.

SECTION 1. The Company hereby covenants and agrees with the Trustee, for the benefit of the Trustee and all the present and future holders of the Bonds, that the Company will pay the principal of and premium, if any, of and interest on all bonds issued or to be issued as aforesaid under and secured by the Original Indenture as hereby supplemented, as well as all bonds which may be hereafter issued in exchange or substitution therefor, and will perform and fulfill all of the terms, covenants and conditions of the Original Indenture and of this Forty-ninth Supplemental Indenture with respect to the additional bonds to be issued under the Original Indenture as hereby supplemented.

SECTION 2. The Company covenants and agrees that so long as any of the Bonds are outstanding (a) the Company will not make any Stock Payment if, after giving effect thereto, its retained earnings, computed in accordance with generally accepted accounting principles consistently applied, will be less than the sum of (i) Excluded Earnings, if any, since December 31, 2013, and (ii) \$20,000,000; (b) Stock Payments made more than forty (40) days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) or (b) of Section 1 of Article XI of the Original Indenture.

For the purposes of this Section 2 the following terms shall have the following meanings:

“Capitalization” shall mean the sum of (i) the aggregate principal amount of all Debt at the time outstanding, (ii) the aggregate par or stated value of all capital stock of the Company of all classes at the time outstanding, (iii) premium on capital stock, (iv) capital surplus, and (v) retained earnings.

“Debt” means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all deferred indebtedness for the payment of the purchase price of property or assets purchased (but Debt shall not be deemed to include customer advances for construction or any bonds issued under the Indenture which are not Outstanding Bonds), (iii) leases which have been or, in accordance with generally accepted accounting principles, should be recorded as capital leases and (iv) guarantees of the obligations of another of the nature described in clauses (i), (ii) or (iii) which have been or, in accordance with generally accepted accounting principles, should be recorded as debt.

“Determination Date” shall mean the last day of each calendar quarter. Any calculation with respect to any Determination Date shall be based on the Company’s balance sheet as of such date.

“Excluded Earnings” shall mean 35% of the Company’s Net Income during any Restricted Period.

“Net Income” for any particular Restricted Period shall mean the amount of net income properly attributable to the conduct of the business of the Company for such period, as determined in accordance with generally accepted accounting principles consistently applied, after payment of or provision for taxes on income for such period.

“Outstanding Bonds” shall mean bonds which are outstanding within the meaning indicated in Section 20 of Article I of the Original Indenture except that, in addition to the bonds referred to in clauses (a), (b) and (c) of said Section 20, said term shall not include bonds for the retirement of which sufficient funds have been deposited with the Trustee with irrevocable instructions to apply such funds to the retirement of such bonds at a specified time, which may be either the maturity thereof or a specified redemption date, whether or not notice of redemption shall have been given.

“Restricted Period” shall mean a period commencing on any Determination Date on which the total Debt of the Company is, or as the result of any Stock Payment then declared or set aside and to be made thereafter will be, more than 70% of Capitalization, and continuing until the third consecutive Determination Date on which the total Debt of the Company does not exceed 70% of Capitalization.

“Stock Payment” shall mean any payment in cash or property (other than stock of the Company) to any holder of shares of any class of capital stock of the Company as such holder, whether by dividend or upon the purchase, redemption, conversion or other acquisition of such shares, or otherwise.

SECTION 3. The Company covenants and agrees that so long as any of the Bonds are outstanding neither the Company nor any subsidiary of the Company will, directly or indirectly, lend or in any manner extend its credit to, or indemnify, or make any donation or capital contribution to, or purchase any security of, any corporation which directly or indirectly controls the Company, or any subsidiary or affiliate (other than an affiliate which is a subsidiary of the Company) of any such corporation.

ARTICLE IV.

The Trustee.

SECTION 1. The Trustee hereby accepts the trust hereby declared and provided, and agrees to perform the same upon the terms and conditions in the Original Indenture, as supplemented by this Forty-ninth Supplemental Indenture.

SECTION 2. Subject to the provisions of Article XIII of the Original Indenture, the Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through and consult with attorneys, agents, officers or employees selected by the Trustee in its sole discretion. The Trustee shall be entitled to advice of counsel concerning all matters of trusts hereof and the duties hereunder and may in all cases pay such reasonable compensation to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting and rely upon and be free from all liability for so relying upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Company) and shall be free from all liability for any action taken or not taken in reliance on such opinion or advice. The Trustee may act and rely on written opinions of experts employed by the Trustee and such advice shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by the Trustee hereunder in good faith and in reliance thereon. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action in good faith taken in reliance upon such opinion or advice. The Trustee shall not be bound to confirm, verify or make any investigation into the facts or matters stated in any financial or other statements, resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order or other paper or document furnished pursuant to the terms hereof.

SECTION 3. Before the Trustee shall be required to foreclose on, or to take control or possession of, the real property or leasehold interest (the "Premises") which may be the subject of any mortgage or mortgages for which the Trustee is mortgagee in connection with the issuance of the Bonds, the Trustee shall be indemnified and held harmless by the holders and/or beneficial owners of the Bonds from and against any and all expense, loss, or liability that may be suffered by the Trustee in connection with any spill, leak or release which may have occurred on or invaded the Premises or any contamination by any Hazardous Substance (as such terms are hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport, or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a hazardous waste or substance under any applicable federal, state or local law, rule, order or regulation now or hereafter adopted; (b) constitutes a "hazardous

substance” as such term is defined under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. §9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a “hazardous waste” under the Resource Conservation and Recovery Act, (42 U.S.C. §6991) and the regulations issued thereunder and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under the Federal Clean Water Act, as amended (33 U.S.C. §1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. § 2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20-261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. §§655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products, or any substance contained within or released from any underground or aboveground storage tanks. As used in this Section, the term “Environmental Statutes” shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (g) inclusive in the preceding.

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ARTICLE V.

Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second, Thirty-Third, Thirty-Fourth, Thirty-Fifth, Thirty-Sixth, Thirty-Seventh, Thirty-Eighth, Thirty-Ninth, Fortieth, Forty-first, Forty-second, Forty-third, Forty-fourth, Forty-fifth, Forty-sixth, Forty-seventh and Forty-eighth Supplemental Indentures are hereby confirmed. All references in this Forty-ninth Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein and not specifically defined herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. Any notices to the Trustee under this Forty-ninth Supplemental Indenture shall be delivered to the Trustee by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

The Bank of New York Mellon Trust Company, N. A.
Global Corporate Trust
1735 Market Street, 6th Floor
AIM No: 193-0650
Philadelphia, PA 19103
Attention: Judy Wisniewski
Telephone: 215-553-6941
Fax: 215-553-6915

Any change in such address or telecopy number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Forty-ninth Supplemental Indenture are made by the Company only and not by the Trustee; and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect hereof as fully and with like effect as if set forth herein in full.

SECTION 4. Although this Forty-ninth Supplemental Indenture is dated for convenience and for the purpose of reference as of December 1, 2014, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto. This Forty-ninth Supplemental Indenture is effective on December 29, 2014.

SECTION 5. In order to facilitate the recording or filing of this Forty-ninth Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their authorized officers have hereto affixed their signatures, and their authorized officers have duly attested the execution hereof, as of the day first above written.

[CORPORATE SEAL]

AQUA PENNSYLVANIA, INC.,
as successor by merger to
Philadelphia Suburban Water Company

Attest: Maria Gordiany

By: /s/ Diana Moy Kelly
Name: Diana Moy Kelly
Title: Treasurer

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N. A.,
as Trustee

Attest: Alex Briffett
 Authorized Officer

By: /s/ Teresa Petta
Name: Teresa Petta
Title: Authorized Signer

The Bank of New York Mellon Trust Company, N.A., Mortgagee and Trustee named in the foregoing Forty-ninth Supplemental Indenture, hereby certifies that its precise name and the post office address are as follows:

The Bank of New York Mellon Trust Company, N. A.
Global Corporate Trust
1735 Market Street, 6th Floor
AIM No: 193-0650
Philadelphia, PA 19103
Attention: Judy Wisniewski
Telephone: 215-553-6941
Fax: 215-553-6915

THE BANK OF NEW YORK
MELLON TRUST COMPANY, N. A.,
as Trustee

By: /s/ Teresa Petta
Name: Teresa Petta
Title: Authorized Signer

COMMONWEALTH OF PENNSYLVANIA:

COUNTY OF MONTGOMERY:

On the 3rd day of December, 2014 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Diana Moy Kelly, who acknowledged herself to be the Treasurer of Aqua Pennsylvania, Inc., a corporation, and that she as such Treasurer, being authorized to do so, executed the foregoing Forty-ninth Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by herself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

/s/ Lisa S. Piotrowski

ACKNOWLEDGMENT

STATE OF CALIFORNIA
COUNTY OF _____ Los Angeles _____)

On ____ 12/04/2014 ____ before me, Cynthia Cerda, Notary Public personally appeared Teresa Petta, an authorized officer of The Bank of New York Mellon Trust Company, N.A., who proved to me on the basis of satisfactory evidence to be the person(s) whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her authorized capacity, and that by her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature /s/ Cynthia Cerda

(Seal)

Exhibit A
Aqua Pennsylvania, Inc.
Schedule of First Mortgage Bonds as of September 30, 2014

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance @ 9/30/2014
Roaring Creek	Tax Exempt	5.05%	11/30/04	10/01/39	14,000,000	14,000,000
Aqua Pa, Inc.	Tax Exempt	5.00%	05/19/05	11/01/36	21,770,000	21,770,000
Aqua Pa, Inc.	Tax Exempt	5.00%	05/19/05	11/01/37	24,165,000	24,165,000
Aqua Pa, Inc.	Tax Exempt	5.00%	05/19/05	11/01/38	25,375,000	25,375,000
Aqua Pa, Inc.	Tax Exempt	5.00%	12/28/05	02/01/35	24,675,000	24,675,000
Aqua Pa, Inc.	Tax Exempt	5.00%	01/16/07	02/01/40	23,915,000	23,915,000
Aqua Pa, Inc.	Tax Exempt	5.00%	01/16/07	02/01/41	23,915,000	23,915,000
Aqua Pa, Inc.	Tax Exempt	5.25%	12/20/07	07/01/42	24,830,000	24,830,000
Aqua Pa, Inc.	Tax Exempt	5.25%	12/20/07	07/01/43	24,830,000	24,830,000
Aqua Pa, Inc.	Tax Exempt	6.25%	12/18/08	10/01/17	9,000,000	9,000,000
Aqua Pa, Inc.	Tax Exempt	6.75%	12/18/08	10/01/18	13,000,000	13,000,000
Aqua Pa, Inc.	Tax Exempt	5.00%	07/18/09	10/01/39	58,000,000	58,000,000
Aqua Pa, Inc.	Tax Exempt	5.00%	11/17/09	11/15/40	62,165,000	62,165,000
Aqua Pa, Inc.	Tax Exempt	4.75%	11/17/09	11/15/40	12,520,000	12,520,000
Aqua Pa, Inc.	Tax Exempt	5.00%	11/17/10	12/01/33	25,910,000	25,910,000
Aqua Pa, Inc.	Tax Exempt	5.00%	11/17/10	12/01/34	19,270,000	19,270,000
Aqua Pa, Inc.	Tax Exempt	4.50%	11/17/10	12/01/42	15,000,000	15,000,000
Aqua Pa, Inc.	Tax Exempt	5.00%	11/17/10	12/01/43	81,205,000	81,205,000
					503,545,000	503,545,000
Aqua Pa, Inc.	Taxable	5.08%	05/10/04	05/15/15	20,000,000	20,000,000
Aqua Pa, Inc.	Taxable	5.17%	05/10/04	05/10/17	7,000,000	7,000,000
Aqua Pa, Inc.	Taxable	5.751%	05/10/04	05/15/19	15,000,000	15,000,000
Aqua Pa, Inc.	Taxable	5.751%	05/10/04	05/15/19	5,000,000	5,000,000
Aqua Pa, Inc.	Taxable	5.98%	05/10/04	05/15/28	3,000,000	3,000,000
Aqua Pa, Inc.	Taxable	6.06%	05/10/04	05/10/27	15,000,000	15,000,000
Aqua Pa, Inc.	Taxable	6.06%	05/10/04	05/15/27	5,000,000	5,000,000
Aqua Pa, Inc.	Taxable	6.89%	12/19/95	12/15/15	12,000,000	12,000,000
Aqua Pa, Inc.	Taxable	7.72%	05/19/95	05/15/25	15,000,000	15,000,000
Shenango	Taxable	8.14%	11/01/95	11/01/25	4,000,000	4,000,000
Aqua Pa, Inc.	Taxable	9.17%	11/01/91	09/15/21	8,000,000	2,800,000
Aqua Pa, Inc.	Taxable	9.29%	11/01/91	09/15/26	12,000,000	12,000,000
Aqua Pa, Inc.	Taxable	9.97%	06/01/88	06/01/18	5,000,000	5,000,000
Aqua Pa, Inc.	Taxable	3.79%	11/13/12	12/01/41	40,000,000	40,000,000
Aqua Pa, Inc.	Taxable	3.80%	11/13/12	12/01/42	20,000,000	20,000,000
Aqua Pa, Inc.	Taxable	3.85%	11/13/12	12/01/47	20,000,000	20,000,000
Aqua Pa, Inc.	Taxable	3.94%	10/24/13	11/01/31	25,000,000	25,000,000
Aqua Pa, Inc.	Taxable	4.61%	10/24/13	11/01/45	25,000,000	25,000,000
Aqua Pa, Inc.	Taxable	4.62%	10/24/13	11/01/46	25,000,000	25,000,000
					281,000,000	275,800,000

EXHIBIT B
RECORDING INFORMATION
BUCKS, CHESTER, DELAWARE AND MONTGOMERY COUNTIES

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	-	-	Z-26	17	2526	312	-	-
Eighth Supplemental	5/10/61	1409	225	-	-	-	-	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	-	-	5864	1347

Twenty-First Supplemental	8/28/85	-	-	-	-	264	159	-	-
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	-	-	-	-	-	-
Twenty-Third Supplemental	4/2/87	-	-	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689
Thirty-First Supplemental	7/11/97	1421	2196	4201	2133	1607	138	7968	779
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	85898	317
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761
Thirty-Fifth Supplemental	1/10/02	2541	765	5152	818	2329	1019	9314	1079
Thirty-Sixth Supplemental	6/5/02	2731	1881	5296	356	2448	1862	9593	1416
Thirty-Seventh Supplemental	12/27/02	3036	1425	12/31/02 B-5514	1552	12/31/02 02631	0294	12/30/02 10018	0204
Thirty-Eighth Supplemental	11/9/04	4196	1557	11/23/04 B-6342	800	11/22/04 B-3348	1698	11/22/04 B-00020	0237
Thirty-Ninth Supplemental	5/18/05	4441	1471 #2005066104	5/19/05 6496	1375 #10534807	03487	0939 32005044507	0020	0688 2005069126
Fortieth Supplemental	12/27/05	4768	1853	12/23/05 6720	897 #10608829	12/23/05 03687	2206 #2005123053	12/29/05 11689	1156

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Forty-first Supplemental	1/11/07	5250	1290 #2007004610	1/12/07 7058	820 #10720615	1/11/07 04002	2257	1/30/07 0225	00329 #2007005061
Forty-second Supplemental	12/13/07		#2007119080	12/13/07 7326	2091 #10809606	12/13/07 04262	1166 #2007105884	12/17/07 12287	02498-02544 #2007147147
Forty-third Supplemental	12/08/08	5961	2131 #2008099812	12/08/08 7556	1527 #10889672	12/08/08 4466	1185	12/08/08 12504	2585 #2008115955
Forty-fourth Supplemental	07/14/09	6158	2032 2009057188	07/13/09 7720	1563 #10943667	07/09/09 4579	1919 #2009042911	07/14/09 12659	894 #2009075197
Forty-fifth Supplemental	11/12/09	6266	1759	11/12/09 7808	255	11/12/09 4654	767	11/12/09 12735	2281
Forty-sixth Supplemental	11/09/10	Instrument #2010079859		11/09/10	673	11/09/10 4833	1240	11/15/10 12958	587
Forty-seventh	11/08/12	Instrument #2012093134		11/07/12 8558	1437	11/07/12 5216	763	11/05/12 13445	792
Forty-Eighth	10/17/13	2013085842		10/17/13 8831	255	10/17/13 5417	627	10/18/13 13698	2068

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BERKS COUNTY

Berks			
Indenture	Date of Recording	Book	Page
Original	8/16/99	3113	707
Thirty-Second Supplemental	10/6/99	3132	1510
Thirty-Third Supplemental	11/30/99	3149	1260
Thirty-Fourth Supplemental	10/31/01	3421	896
Thirty-Fifth Supplemental	1/10/02	3461	417
Thirty-Sixth Supplemental	6/4/02	3544	1357
Thirty-Seventh Supplemental	12/30/02	3664	0001
Thirty-Eighth Supplemental	11/30/04	4197	988
Thirty-Ninth Supplemental	5/18/05	04583	1017
Fortieth Supplemental	02/09/06	04782	1916
Forty-first Supplemental	1/11/07	05054	0013
Forty-second Supplemental	12/13/07	05272	1398 #2007073573
Forty-third Supplemental	12/09/08	Instr. #200805825	

BERKS COUNTY

Berks		
Indenture	Date of Recording	
Forty-fourth Supplemental	07/14/09	Instr. #2009033415
Forty-fifth Supplemental	11/12/09	Instr. #2009053102
Forty-sixth Supplemental	11/12/10	Instr. #2010044820
Forty-seventh Supplemental	11/07/12	Instrument #2012046626
Forty-Eighth	10/18/13	2013044549

**BRADFORD, COLUMBIA, LAWRENCE, MERCER, NORTHUMBERLAND, PIKE,
SCHUYLKILL AND WAYNE COUNTIES**

Indenture	BRADFORD		COLUMBIA		LAWRENCE			MERCER	
	Date of Recording	Instrument No.	Date of Recording	Instrument No.	Date of Recording	Book	Page	Date of Recording	Instrument No.
Thirty-Fifth Supplemental	12/21/01	200115497				1688	744		
Thirty-Sixth Supplemental	07/04/02	200207151							
Thirty-Seventh Supplemental	12/30/02	200216472							
Thirty-Eighth Supplemental	11/22/04	200415112	11/30/04	200413567	11/24/04	1992	0291	11/24/04	2004020435
Thirty-Ninth Supplemental	5/16/05	200504827	5/18/05	200505042	5/16/2005	2032	200 #005488	5/13/05	2005-7340
Fortieth Supplemental	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	0934 #015325	12/27/05	2005-00020320
Forty-first Supplemental	1/12/07	200700440	1/17/07	200700636	1/11/07	2007	000466	1/12/07	2007-00000583
Forty-second Supplemental	12/18/07	200714762	12/20/07	200712896	12/17/07	2007	013275	12/14/07	2007-00016849
Forty-third Supplemental	12/10/08	200821178	12/11/08	200812596	12/12/08	2008	00014552	12/12/08	2008-00014552
Forty-fourth Supplemental	07/09/09	200914068	07/10/09	200906468	07/14/09	2009	005608	07/09/09	2009-00007283
Forty-fifth Supplemental	11/12/09	200924720	11/12/09	200910768	11/13/09	2009	009439	11/12/09	2009-00012159
Forty-Sixth Supplemental	11/04/10	201025652	11/12/10	201010292	11/08/10	2010	009211	11/05/10	2010-11283
Forty-Seventh Supplemental	11/06/12	201230341	11/07/12	201210538	11/07/12	Instrument #2012-014826		11/07/12	Instrument #2012-00015794
Forty-Eighth	10/16/13	201320454	10/18/13	201309891	10/17/13	2013-012664		10/17/13	2013-00017175

Indenture	NORTHUMBERLAND			PIKE			SCHUYLKILL			WAYNE		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Fifth Supplemental		1404	246		1909	2328		1413	1		1911	1
Thirty-Sixth Supplemental		1445	028					1584	0259			
Thirty-Seventh Supplemental	12/30/02	1500	911	12/30/02	1959	2447	12/27/02	2022	1006	12/30/02	2136	148
Thirty-Eighth Supplemental	11/22/04	1714	748	11/23/04	2081	1757	11/24/04	2126	569	11/23/04	2658	252
Thirty-Ninth Supplemental	5/18/05	1761	50 #200509076	5/17/05	2109	2201 #200500008491	5/18/05	2150	1871-1919 #200500010263	5/16/05	Vol. 2769	1 #200500004960
Fortieth Supplemental	12/2705	1828	571	12/27/05	2151	1334	12/23/05	2184	875	12/27/05	2944	243
Forty-first Supplemental	1/11/07	1933	634 #2007000696	1/12/07	2214	472-515 #200700000749	1/11/07	2238	798-840 #200700000686	1/16/07	3216	229-272 #200700000492
Forty-second Supplemental	12/17/07	2024	953 #200721572	12/19/07	2261	175 #200700018937	12/18/07	2285	473 #200700022991	12/18/07	3433	1 #200700013194
Forty-third Supplemental	12/10/08	Instrument #200819618		12/18/08	2296	268	12/10/08	2324	2159	12/09/08	3633	1 1-45
Forty-fourth Supplemental	07/14/09	2160	680 #200910564	07/14/09	2313	2050 #200900007071	07/10/09	2344	842 #200900009544	07/10/09	3777	204 #200900007610
Forty-fifth Supplemental	11/12/09	Instrument #200917348		11/13/09	2323	2637	11/12/09	2356	1104	11/12/09	3888	185
Forty-Sixth Supplemental	11/08/10	Instrument #201016325		11/04/10	2349	1850	11/08/10	2386	2411	11/08/10	4127	9
Forty-Seventh Supplemental	11/07/12	Instrument #201217185		11/06/12	2402	2160	11/05/12	2452	1076	11/06/12	Instr. #201200008114	
Forty-Eighth	10/17/13	201316345		10/17/13	2434	894	10/17/13	2486	767	10/17/13	201300008077	

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**ADAMS, CARBON, CUMBERLAND, FOREST, JUNIATA, LACKAWANNA, LUZERNE,
MONROE, NORTHAMPTON, SNYDER, SUSQUEHANNA AND WYOMING COUNTIES**

Indenture	ADAMS			CARBON			CUMBERLAND			FOREST		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/23/04	3781	1	11/30/04	200416309		11/22/04	2004047145		11/29/04	231	306
Thirty-Ninth Supplemental	5/19/05	3970	54	5/18/05	1330	689 #200505926	5/13/05	1907	0247	5/16/05	234	345 #478
Fortieth Supplemental	12/28/05	4261	162	12/27/05	1408	576	12/27/05	1935	3233	12/27/05	0238	0304
Forty-first Supplemental	1/11/07	4707	2081 #2007000007	1/12/07	1540	548 #200700596	1/11/07	1979	0482	1/09/07	0244	0362 #2007000022
Forty-second Supplemental	12/17/07	5062	223 200700023048	12/18/07	1650	261 #200715671	12/14/07	200746336		12/18/07	250	219 #2007-1339
Forty-third Supplemental	12/10/08	5312	110 200800020691	12/11/08	1735	864 #7520A3.03	12/11/08	200839447		12/08/08	255	548 #200800142
Forty-fourth Supplemental	07/13/09	5390	643 200900011159	07/10/09	1778	883 #200905920	07/10/09	200924123		07/13/09	258	466
Forty-fifth Supplemental	11/13/09	5431	12	11/12/09	1805	605	11/13/09	200938300		11/13/09	260	659
Forty-sixth Supplemental	11/09/10	2010-00011579		11/08/10	1873	355	11/08/10	201032542		11/15/10	266	855
Forty-seventh Supplemental	11/07/12	5764/83		11/05/12	2007	782	11/06/12	Instrument #201234441		11/06/12	277	671
Forty-Eighth	10/16/13	5885/454		10/16/13	Instr. 201308279	n/a	10/16/13	Instrument # 201333958		10/16/13	283	282

	JUNIATA			LACKAWANNA			LUZERNE			MONROE		
Indenture	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Recording	Book	Page
Thirty-Eighth Supplemental	11/22/04	345	1047	11/29/04	#200441665		11/23/04	3004	294775	11/24/04	2208	7674
Thirty-Ninth Supplemental	5/13/05	354	0049 #2005-1512	5/16/05	#200512642		5/17/05	3005	117727 #5637329	5/18/05	2225	8444 #200521128
Fortieth Supplemental	12/22/05	0365	1028	12/23/05	#20536270		12/28/05	3005	349088 #5677739	12/27/05	2252	9105 #200560314
Forty-first Supplemental	1/09/07	385	0188	1/12/07	#200701277		1/16/07	3007	13425	11/06/07	2320	4708
Forty-second Supplemental	12/13/07	401	0847 #20073981	12/17/07	#200734133		12/17/07	3007	328532 #5799531	12/17/07	2323	4362 #200745976
Forty-third Supplemental	12/08/08	418	356 #2008004757	12/11/08	#200829528		12/11/08	3008	262977 #5850129	12/08/08	2346	263 #200834800
Forty-fourth Supplemental	07/13/09	428	403	07/10/09	#200917720		07/14/09	3009	137259 #5877023	07/14/09	2356	6497 #200917344
Forty-fifth Supplemental	11/13/09	Instr. #2009003349		11/12/09	#200928049		11/12/09	3009	#225655	11/13/09	2362	5600
Forty-sixth Supplemental	11/09/10	Instr. # 2010-002859		11/05/10	2010-22001		11/12/10	3010	205710	11/08/10	2378	5023
Forty-seventh Supplemental	11/05/12	Instrument #201204749		11/05/12	Instrument #201221515		11/5/12	3012	195945	11/07/12	2410	6678
Forty-Eighth	10/18/13	Instrument# 201304508		10/17/13	Instr.# 21321795		10/17/13	Instr. #201353931		10/17/13	2428	9326

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Indenture	NORTHAMPTON			SNYDER			SUSQUEHANNA			WYOMING		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Thirty-Eighth Supplemental	11/22/04	2004-1	452932	11/24/04	631	0001	11/24/04	Instr. #200411624		11/24/04	0513	0774
Thirty-Ninth Supplemental	5/17/05	2005-1	182906 #2005026917	5/17/05	650	135 #2005028880	5/16/05	Instr. #200504384		5/18/05	0522	1289
Fortieth Supplemental	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	Instr. #200512620		12/22/05	0536 #2005004922	0748
Forty-first Supplemental	1/19/07	2007-1	25009 #2007003204	1/11/07	724	734 #200700240	1/10/07	Instr. #200700387		1/10/07	0558	0959
Forty-second Supplemental	12/17/07	2007-1	446608 #2007057981	12/18/07	763	178 #200707447	12/17/07	Instr. #200713519		12/18/07	#2007	5154
Forty-third Supplemental	12/09/08	2008-1	320419	12/12/08	803	217 #220807546	12/09/08	Instr. #200818392		12/10/08	#2008	6990
Forty-fourth Supplemental	07/10/09	2009-1	177314 #2009024436	07/14/09	827	786 #200904115	07/09/09	Instr. #200911054		07/10/09	#2009	4233
Forty-fifth Supplemental	11/12/09	2009-1	#284944	11/12/09		#200906458	11/13/09	Instr. #2009016907		11/12/09	#2009	9004
Forty-sixth Supplemental	11/08/10	Instr. # 2010034053		11/08/10	#201006057		11/3/10	Instr. #201019526		11/03/10	2010	10427
Forty-seventh Supplemental	11/06/12	Instr. # 2012035708		11/07/12	Instr. #201206425		11/06/12	Instr. #201213685		11/06/12	2012	5064
Forty-Eighth	10/16/13	Instr.#2013036767		10/17/13	Instr. # 201306275		10/18/13	Instr. #201313379		10/18/13	2013	4775

LEHIGH AND CRAWFORD COUNTIES

Indenture	LEHIGH		CRAWFORD		
	Date of Rec.	Book	Date of Rec.	Book	Page
Forty-first Supplemental	1/10/07	7390692	1/11/07	856	177 #200700000444
Forty-second Supplemental	12/14/07	7455854	12/14/07	905	577 #200700015228
Forty-third Supplemental	12/09/08	2008001239	12/10/08	948	860 #200800012935
Forty-fourth Supplemental	07/10/09	2009027356	07/13/09	971	685 #200900006196
Forty-fifth Supplemental	11/13/09	2009044872	11/12/09	986	1277
Forty-sixth Supplement	11/10/10	2010037955	11/16/10	1027	753
Forty-seventh Supplement	11/07/12	Instrument #2012-005015	11/05/12	Instrument # 201200010609	
Forty-Eighth	10/17/13	Instrument # 201353931	10/16/13	Instrument #201300009525	

CLARION, VENANGO AND WARREN COUNTIES

Indenture	CLARION			VENANGO			WARREN		
	Date of Rec.	Book	Page	Date of Rec.	Book	Page	Date of Rec.	Book	Page
Forty-fourth Supplemental	07/10/09	0790	0674 #2009-3120	07/13/09	544	184 #2009003193	07/09/09	1921	4 #2009-2683
Forty-fifth Supplemental	11/12/09	Instr. #2009-5388		11/12/09	Instr. #2009005802		11/13/09	1953	188
Forty-sixth Supplemental	11/08/10	Instr. #2010-005233		11/05/10	597	625	11/5/10	2043	94
Forty-seventh Supplemental	11/06/12	Instrument #2012040499		11/07/12	Instrument # 2012-007086		11/05/12	2234	32
Forty-Eighth	10/16/13	Instrument #2013-004452		10/16/13	Instrument # 2013-00512		10/16/13	2324	95

CLEARFIELD COUNTY

Clearfield		
Indenture	Date of Recording	Instrument No.
Forty-Ninth Supplemental	10/18/13	201314244

EXHIBIT "C TO 49th SUPPLEMENT"
RECORDING INFORMATION FOR ACQUIRED PROPERTIES

Exhibit "C"		
Aqua Acquired Properties		
County	Tax Parcel No.	Deed Book - Page/Instrument No.
Clearfield	CO2-021-00122-00-21	201302722
	CO2-000-00126	
	CO2-000-00019-DW-01	
	CO2-021-00129-00-21	
	CO2-000-00059	
	CO2-017-00272-00-21	
	CO2-017-00273-00-21	
	CO2-017-00274-00-21	
	CO2-018-00413-00-21	
	CO2-018-00111-00-21	
	CO2-018-00109-00-21	
	CO2-021-00123-00-21	
	CO2-021-00128-00-21	
	CO2-021-00130-00-21	
	CO2-021-00059-00-21	
CO2-021-00120-00-21		
CO2-018-00110-00-21		
CO2-021-00121-00-21		
Columbia	23-06-003-01	201202798
	23-05-047-04	201202798
	23-05-047-03	201202798
Crawford	200700015540	906-772
Luzerne	13-P9-00A-04B-000	3012 - 80187
	35-D9S4-002-012	309 - 68695
	P8S1-001-042	3011 - 203240
	P8S1-001-001	3011 - 203240
	WN-869-488	2092 - 248
Montgomery	67-00-04052-51-6 and 67-00-02614-73-6	02699 to 02710.1
Snyder	08-01-075	823 - 66
	08-02-048	823 - 66
	08-01-082	823 - 66

Exhibit "C" - Continued Aqua Acquired Properties		
County	Tax Parcel No.	Deed Book - Page/Instrument No.
Warren	WN-008-649700	RE1903 - 326
	WN-868-835500	RE1903 - 326
	WN-868-911300	RE1903 - 341
	WN-868-6798	RE1904 - 1
	WN-869-488	RE-1903-334
	WN-869-442100	RE-2092-248
Wayne	27-0-02540-0044.0001	139 - 620
	27-0-0016-0040	235 - 676
	27-0-0027-0026	1157 - 323
	27-0-0027-0029	1175 - 267
	27-0-0027-0027	1175-267
	11-0-0004-0021	30-396
	11-0-0004-0022	114 - 136
	11-0-0011-0063	207 - 132
	11-0-0002-0039	711 - 197
	11-0-0002-0040	711 - 197
	11-0-0002-0035	711 - 197
	11-0-0013-0028.0001	1126 - 210
	11-0-0254-0081.0001	1156 - 67
	11-0-0013-0013.0001	1158 - 149
	14-0-0370-0044	3678 - 283
	12-0-0050-0602	308-323
	12-0-0050-0604	308-323
	19-0-0042-0464.0001	308-323
19-0-0042-0485	308-323	
Wyoming	27-71.0-134-00	20092860
	27-71.0-97-00-00-43	

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT is made as of this 29th day of September, 2014, by and among AQUA PENNSYLVANIA, INC., a Pennsylvania corporation (“Borrower”), the several banks which are parties to this Agreement (each a “Bank” and collectively, “Banks”) and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, “Agent”).

BACKGROUND

A. Borrower, Agent and Banks are parties to a Credit Agreement, dated as of November 30, 2010 (as heretofore amended, supplemented or otherwise modified, the “Credit Agreement”).

B. Borrower, Agent and Banks desire to modify certain other provisions of the Credit Agreement, all on the terms and subject to the conditions herein set forth.

NOW THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

AGREEMENT

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. The Credit Agreement is hereby amended as follows:

(a) Section 1.1 is hereby amended by adding in the appropriate alphabetical order the new definition of “Term Loan Facility” which shall read in full as follows:

“Term Loan Facility”: the term loan facility evidenced by that certain Term Loan Agreement, dated as of September 29, 2014, by and among the Borrower, the lenders party thereto, and Agent.

(b) Section 6.2 is hereby amended and restated to read in full as follows:

“6.2 Limitation on Certain Debt

. Except for the Commitments under the Loan Documents and the Term Loan Facility, at any time enter into, assume or suffer to exist lines of credit or comparable extensions of credit from one or more commercial banks (or their Affiliates) under which the Borrower has incurred or may incur aggregate Debt in excess of \$15,000,000.”

3. Loan Documents. Except where the context clearly requires otherwise, all references to the Credit Agreement in any of the Loan Documents or any other document delivered to Banks or Agent in connection therewith shall be to the Credit Agreement as amended by this Agreement.

4. Borrower's Ratification. Borrower agrees that it has no defenses or set-offs against Banks or Agent or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. Borrower hereby ratifies and confirms its obligations under the Loan Documents as amended hereby and agrees that the execution and delivery of this Agreement does not in any way diminish or invalidate any of its obligations thereunder.

5. Representations and Warranties. Borrower hereby represents and warrants to Agent and Banks that:

(a) The representations and warranties made in the Credit Agreement are true and correct in all material respects as of the date hereof; provided, however, that for purposes of the representations in Section 3.1 thereof, the annual and quarterly financial information referred to in such Section shall be deemed to be the most recent such information furnished to each Bank;

(b) No Default or Event of Default under the Credit Agreement exists on the date hereof; and

(c) This Agreement has been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms.

All of the above representations and warranties shall survive the making of this Agreement.

6. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of Agent and its counsel, of the following conditions precedent on or before the Effective Date:

(a) Borrower shall have delivered to Agent, with copies or counterparts for each Bank as appropriate, the following, all of which shall be in form and substance satisfactory to Agent and shall be duly completed and executed:

- (i) This Agreement;
- (ii) Copies, certified by the Secretary or an Assistant Secretary of Borrower of resolutions of the board of directors of Borrower in effect on the date hereof authorizing the execution, delivery and

performance of this Agreement and the other documents and transactions contemplated hereby;

- (iii) Copies, certified by its corporate secretary of the articles of incorporation, certificate of formation, and by-laws of Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to Agent; and
- (iv) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

(b) After giving effect to this Amendment, the representations and warranties set forth in the Credit Agreement shall be true and correct in all material respects on and as of the date hereof.

(c) No Default or Event of Default shall have occurred and be continuing as of the date hereof.

7. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to Agent and Banks in connection therewith shall remain unaltered and in full force and effect except as modified or amended hereby. To the extent that any term or provision of this Agreement is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other document executed in connection therewith, the terms and provisions hereof shall control.

(b) The execution, delivery and effectiveness of this Agreement shall neither operate as a waiver of any right, power or remedy of Agent or Banks under any of the Loan Documents nor constitute a waiver of any Default or Event of Default thereunder.

(c) In consideration of Agent's and Banks' agreement to amend the existing credit facility, Borrower hereby waives and releases Agent and Banks and their respective officers, attorneys, agents and employees from any liability, suit, damage, claim, loss or expense of any kind or failure whatsoever and howsoever arising that it ever had up until, or has as of, the date of this Agreement.

(d) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements.

(e) In the event any provisions of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

(f) This Agreement shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

(g) This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns and may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) The headings used in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, Borrower, Agent and Banks have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

AQUA PENNSYLVANIA, INC.

By: /s/ David P. Smeltzer
Name: David P. Smeltzer
Title: Executive Vice President and Chief
Financial Officer

DMEAST #19335512

Fourth Amendment

PNC BANK, NATIONAL ASSOCIATION, as a Bank
and as Agent

By: /s/ Domenic D’Ginto
Name: Domenic D’Ginto
Title: Senior Vice President

DMEAST #19335512

Fourth Amendment

TD BANK, N.A.

By: /s/ John T. Callaghan
Name: Joh T. Callaghan
Title: V. P.

DMEAST #19335512

Fourth Amendment

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Rocco Christino
Name: Rocco Christino
Title: Assistant Vice President

DMEAST #19335512

Fourth Amendment

THE HUNTINGTON NATIONAL BANK

By: /s/ Michael Kiss
Name: Michael Kiss
Title: Vice President

DMEAST #19335512 Fourth Amendment

Aqua Pennsylvania, Inc.

\$25,000,000 First Mortgage Bonds, 3.64% Series due 2035

\$15,000,000 First Mortgage Bonds, 4.01% Series due 2040

\$13,000,000 First Mortgage Bonds, 4.06% Series due 2045

\$12,000,000 First Mortgage Bonds, 4.11% Series due 2054

Bond Purchase Agreement

Dated as of December 29, 2014

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Aqua Pennsylvania, Inc.
762 West Lancaster Avenue
Bryn Mawr, Pennsylvania 19010-3489

\$25,000,000 First Mortgage Bonds, 3.64% Series due 2035
\$15,000,000 First Mortgage Bonds, 4.01% Series due 2040
\$13,000,000 First Mortgage Bonds, 4.06% Series due 2045
\$12,000,000 First Mortgage Bonds, 4.11% Series due 2054

December 29, 2014

To Each of The Purchasers Listed in
Schedule A Hereto:

Ladies and Gentlemen:

Aqua Pennsylvania, Inc., a corporation organized under the laws of the Commonwealth of Pennsylvania (the "*Company*"), agrees with each of the purchasers whose names appear at the end hereof (each, a "*Purchaser*" and, collectively, the "*Purchasers*") as follows:

Section 1. Authorization of Bonds .

The Company will authorize the issue and sale of (i) \$25,000,000 First Mortgage Bonds, 3.64% Series due January 15, 2035 (the "*Series A Bonds*"), (ii) \$15,000,000 First Mortgage Bonds, 4.01% Series due January 15, 2040 (the "*Series B Bonds*"), (iii) \$13,000,000 First Mortgage Bonds, 4.06% Series due January 15, 2040 (the "*Series C Bonds*"), and (iv) \$12,000,000 First Mortgage Bonds, 4.11% Series due December 29, 2054 (the "*Series D Bonds*" and together with the Series A Bonds, the Series B Bonds and the Series C Bonds, the "*Bonds*") and such term includes any such notes issued in substitution therefor). The Bonds will be issued under and secured by that certain Indenture of Mortgage dated as of January 1, 1941, from the Company (as successor by merger to the Philadelphia Suburban Water Company), as grantor, to The Bank of New York Trust Company, N.A. , as successor trustee (the "*Trustee*") (the "*Original Indenture*"), as previously amended and supplemented by forty-eight supplemental indentures and as further supplemented by the Forty-ninth Supplemental Indenture dated as of December 1, 2014 (such Forty-ninth Supplemental Indenture being referred to herein as the "*Supplement*") which will be substantially in the form attached hereto as Exhibit A, with such changes therein, if any, as shall be approved by the Purchasers and the Company. The Original Indenture, as supplemented and amended by the aforementioned forty-eight supplemental indentures and the Supplement, and as further supplemented or amended according to its terms, is hereinafter referred to as the "*Indenture*". Certain capitalized and other terms used in this Agreement are defined in Schedule B; and references to a "*Schedule*" or an "*Exhibit*" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement. Terms used herein but not defined herein shall have the meanings set forth in the Indenture.

Section 2. Sale and Purchase of Bonds .

Subject to the terms and conditions of this Agreement, the Company will issue and sell to each Purchaser and each Purchaser will purchase from the Company, at the Closing provided for in Section 3, Bonds in the principal amount and in the series specified opposite such Purchaser's name in Schedule A at the purchase price of 100% of the principal amount thereof. The Purchasers' obligations hereunder are several and not joint obligations and no Purchaser shall have any liability to any Person for the performance or non-performance of any obligation by any other Purchaser hereunder.

Section 3. Closing .

The execution and delivery of this Agreement and the sale and purchase of the Bonds to be purchased by each Purchaser shall occur at the offices of Chapman and Cutler LLP, 111 West Monroe Street, Chicago, Illinois 60603, at 10:00 a.m., Chicago time, at a closing (the "*Closing*") on December 29, 2014. At the Closing the Company will deliver to each Purchaser the Bonds to be purchased by such Purchaser in the form of one or more Bonds in each series to be purchased by such Purchaser, as applicable, in such denominations as such Purchaser may request (with a minimum denomination of \$100,000 for each Bond), dated the date of the Closing and registered in such Purchaser's name (or in the name of its nominee), against delivery by such Purchaser to the Company or its order of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for Account Number: 8559742757, Account Name: Aqua Pennsylvania, Inc., at PNC Bank, N.A., Philadelphia, Pennsylvania, ABA Number 031-000053. If at the Closing the Company shall fail to tender such Bonds to any Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to such Purchaser's satisfaction, such Purchaser shall, at its election, be relieved of all further obligations under this Agreement, without thereby waiving any rights such Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. Conditions to Closing .

Each Purchaser's obligation to execute and deliver this Agreement and to purchase and pay for the Bonds to be sold to such Purchaser prior to or at the Closing is subject to the fulfillment to such Purchaser's satisfaction at the Closing of the following conditions:

Section 4.1. Representations and Warranties . The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

Section 4.2. Performance; No Default . The Company shall have performed and complied with all agreements and conditions contained in each Financing Agreement required to be performed or complied with by the Company prior to or at the Closing, and after giving effect to the issue and sale of the Bonds (and the application of the proceeds thereof as contemplated by Section 5.14), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates . The Company shall have performed and complied with all agreements and conditions contained in the Indenture which are required to be

performed or complied with by the Company for the issuance of the Bonds. In addition the Company shall have delivered the following certificates:

(a) *Officer's Certificate.* The Company shall have delivered to such Purchaser (i) an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Section 4 of this Agreement have been fulfilled, and (ii) copies of all certificates and opinions required to be delivered to the Trustee under the Indenture in connection with the issuance of the Bonds under the Indenture, in each case, dated the date of the Closing.

(b) *Secretary's Certificate.* The Company shall have delivered to such Purchaser a certificate of its Secretary or Assistant Secretary, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of this Agreement, the Bonds and the Supplement.

(c) *Certification of Indenture.* Each Purchaser shall have received a composite copy of the Indenture (together with all amendments and supplements thereto), certified by the Company as of the date of the Closing, exclusive of property exhibits, recording information and the like.

Section 4.4. Opinions of Counsel . Such Purchaser shall have received opinions in form and substance satisfactory to such Purchaser, dated the date of the Closing (a) from Christopher P. Luning, counsel for the Company, covering the matters set forth in Exhibit 4.4(a) and covering such other matters incident to the transactions contemplated hereby as such Purchaser or its counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers) and (b) from Dilworth Paxson, LLP, special counsel to the Company, covering the matters set forth in Exhibit 4.4(b) and covering such other matters incident to the transactions contemplated hereby as the Purchaser or the Purchaser's counsel may reasonably request (and the Company hereby instructs its counsel to deliver such opinion to the Purchasers), and (c) from Chapman and Cutler LLP, the Purchasers' special counsel in connection with such transactions, substantially in the form set forth in Exhibit 4.4(c) and covering such other matters incident to such transactions as such Purchaser may reasonably request. The Company hereby directs its counsel to deliver the opinions required by this Section 4.4 and understands and agrees that each Purchaser will and hereby is authorized to rely on such opinions.

Section 4.5. Purchase Permitted by Applicable Law, Etc . On the date of the Closing such Purchaser's purchase of Bonds shall (a) be permitted by the laws and regulations of each jurisdiction to which such Purchaser is subject, without recourse to provisions (such as section 1405(a) (8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject such Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date of the Closing. If requested by such Purchaser, such Purchaser shall

have received an Officer's Certificate certifying as to such matters of fact as such Purchaser may reasonably specify to enable such Purchaser to determine whether such purchase is so permitted.

Section 4.6. Sale of Bonds . Contemporaneously with the Closing, the Company shall sell to each Purchaser and each Purchaser shall purchase the Bonds to be purchased by it at the Closing as specified in Schedule A.

Section 4.7. Payment of Special Counsel Fees . Without limiting the provisions of Section 12.2, the Company shall have paid on or before the Closing the reasonable fees, reasonable charges and reasonable disbursements of the Purchasers' special counsel referred to in Section 4.4(c) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the Closing.

Section 4.8. Private Placement Number . A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the SVO) shall have been obtained for each series of Bonds.

Section 4.9. Changes in Corporate Structure . The Company shall not have changed its jurisdiction of incorporation or organization, as applicable, or been a party to any merger or consolidation or succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

Section 4.10. Funding Instructions . At least three Business Days prior to the date of the Closing, each Purchaser shall have received written instructions signed by a Responsible Officer on letterhead of the Company confirming the information specified in Section 3 including (a) the name and address of the transferee bank, (b) such transferee bank's ABA number and (c) the account name and number into which the purchase price for the Bonds is to be deposited.

Section 4.11. Proceedings and Documents . All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory to such Purchaser and its special counsel, and such Purchaser and its special counsel shall have received all such counterpart originals or certified or other copies of such documents as such Purchaser or such special counsel may reasonably request.

Section 4.12. Execution and Delivery and Filing and Recording of the Supplement . The Supplement shall have been duly executed and delivered by the Company, and the Company shall have filed, or delivered for recordation, the Supplement in all locations in Pennsylvania (and financing statements in respect thereof shall have been filed, if necessary) in such manner and in such places as is required by law (and no other instruments are required to be filed) to establish, preserve, perfect and protect the direct security interest and mortgage Lien of the Trust Estate created by the Indenture on all mortgaged and pledged property of the Company referred to in the Indenture as subject to the direct mortgage Lien thereof and the Company shall have delivered satisfactory evidence of such filings, recording or delivery for recording.

Section 4.13. Regulatory Approvals . The issue and sale of the Bonds shall have been duly authorized by an order of the Pennsylvania Public Utility Commission and such order shall be in full force and effect on the Closing Date and all appeal periods, if any, applicable to such order shall have expired. The Company shall deliver satisfactory evidence that orders have been obtained approving the issuance of the Bonds from the Pennsylvania Public Utility Commission or that the Pennsylvania Public Utility Commission shall have waived jurisdiction thereof and such approval or waiver shall not be contested or subject to review, or that the Pennsylvania Public Utility Commission does not have jurisdiction.

Section 5. Representations and Warranties of the Company .

The Company represents and warrants to each Purchaser that:

Section 5.1. Organization; Power and Authority . The Company is a corporation duly organized, validly existing and subsisting under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The Company has the corporate power and authority to own or hold under lease the properties it purports to own or hold under lease, to transact the business it transacts and proposes to transact, to execute and deliver this Agreement, the Bonds and the Supplement (and had the corporate power and authority to execute and deliver the Indenture at the time of execution and delivery thereof) and to perform the provisions of the Financing Agreements.

Section 5.2. Authorization, Etc . Each Financing Agreement has been duly authorized by all necessary corporate action on the part of the Company, and each Financing Agreement (other than the Supplement and the Bonds) constitutes, and when the Supplement is executed and delivered by the Company and the Trustee and when the Bonds are executed, issued and delivered by the Company, authenticated by the Trustee and paid for by the Purchasers, the Supplement and each Bond will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its respective terms, except as such enforceability may be limited by (a) applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.3. Disclosure . This Agreement and the documents, certificates or other writings delivered to the Purchasers by or on behalf of the Company in connection with the transactions contemplated hereby, including the Private Placement Memorandum (including the documents incorporated therein by reference) dated November 2014, and the financial statements listed in Schedule 5.5 (collectively, the "*Disclosure Documents*"), taken as a whole, do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading in light of the circumstances under which they were made. Since December 31, 2013, there has been no change in the financial condition, operations, business or properties of the Company or any of its Subsidiaries except changes that

individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect. There is no fact known to management of the Company that, in the reasonable judgment of management of the Company, could be expected to have a Material Adverse Effect that has not been set forth herein or in the other documents, certificates and other writings delivered to the Purchaser by the Company specifically for use in connection with the transactions contemplated hereby.

Section 5.4. Organization and Ownership of Shares of Subsidiaries

(a) Schedule 5.4 contains a complete and correct list of the Company's Subsidiaries, showing, as to each Subsidiary, the correct name thereof, the jurisdiction of its organization, and the percentage of shares of each class of its capital stock or similar equity interests outstanding owned by the Company and each other Subsidiary.

(b) All of the outstanding shares of capital stock or similar equity interests of each Subsidiary shown in Schedule 5.4 as being owned by the Company and its Subsidiaries have been validly issued, are fully paid and nonassessable and are owned by the Company or another Subsidiary free and clear of any Lien.

(c) Each Subsidiary identified in Schedule 5.4 is duly incorporated and is validly subsisting as a corporation under the laws of the Commonwealth of Pennsylvania, and is duly qualified as a foreign corporation or other legal entity and is in good standing in each jurisdiction in which such qualification is required by law, other than those jurisdictions as to which the failure to be so qualified or in good standing could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each such Subsidiary has the corporate or other power and authority to own or hold under lease the properties it purports to own or hold under lease and to transact the business it transacts and proposes to transact.

Section 5.5. Financial Statements; Material Liabilities . The Company has delivered to each Purchaser copies of the financial statements of the Company and its Subsidiaries listed on Schedule 5.5. All of said financial statements (including in each case the related schedules and notes) fairly present in all material respects the consolidated financial position of the Company and its Subsidiaries as of the respective dates specified in such financial statements and the consolidated results of their operations and cash flows for the respective periods so specified and have been prepared in accordance with GAAP consistently applied throughout the periods involved except as set forth in the notes thereto (subject, in the case of any interim financial statements, to normal year-end adjustments). The Company does not have any Material liabilities that are not disclosed on such financial statements or otherwise disclosed in the Disclosure Documents.

Section 5.6. Compliance with Laws, Other Instruments, Etc . The execution, delivery and performance by the Company of each Financing Agreement (including the prior execution and delivery of the Indenture), will not (a) contravene, result in any breach of, or constitute a default under, or result in the creation of any Lien, other than the Lien created under the Indenture, in respect of any property of the Company or any Subsidiary under, any indenture, mortgage, deed of trust, loan, purchase or credit agreement, lease, corporate charter or by-laws, or any other Material agreement or instrument to which the Company or any Subsidiary is bound or by which

the Company or any Subsidiary or any of their respective properties may be bound or affected, (b) conflict with or result in a breach of any of the terms, conditions or provisions of any order, judgment, decree, or ruling of any court, arbitrator or Governmental Authority applicable to the Company or any Subsidiary or (c) violate any provision of any statute or other rule or regulation of any Governmental Authority applicable to the Company or any Subsidiary, except for any such default, breach, contravention or violation which would not reasonably be expected to have a Material Adverse Effect.

Section 5.7. Governmental Authorizations, Etc . No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by the Company of this Agreement, the Bonds and the Supplement, other than approval of the Pennsylvania Public Utility Commission, which has been obtained and is in full force and effect and final and is non-appealable.

Section 5.8. Litigation; Observance of Statutes and Orders . (a) There are no actions, suits, investigations or proceedings pending or, to the knowledge of the Company, threatened against or affecting the Company or any Subsidiary or any property of the Company or any Subsidiary in any court or before any arbitrator of any kind or before or by any Governmental Authority that, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any Subsidiary is (i) in default under any term of any agreement or instrument to which it is a party or by which it is bound, (ii) in violation of any order, judgment, decree or ruling of any court, arbitrator or Governmental Authority naming or referring to the Company or any Subsidiary or (iii) in violation of any applicable law, or, to the knowledge of the Company, any ordinance, rule or regulation of any Governmental Authority (including, without limitation, Environmental Laws the USA Patriot Act or any of the other laws and regulations that are referred to in Section 5.16), which default or violation, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

Section 5.9. Taxes . The Company and its Subsidiaries have filed all income tax returns that are required to have been filed in any jurisdiction, and have paid all taxes shown to be due and payable on such returns and all other taxes and assessments payable by them, to the extent such taxes and assessments have become due and payable and before they have become delinquent, except for any taxes and assessments (i) the amount of which is not individually or in the aggregate Material or (ii) the amount, applicability or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which the Company or a Subsidiary, as the case may be, has established adequate reserves in accordance with GAAP. The charges, accruals, and reserves on the books of the Company and its Subsidiaries in respect of federal, state or other taxes for all fiscal periods are adequate. The Federal income tax liabilities of the Company and its Subsidiaries have been finally determined (whether by reason of completed audits or the statute of limitations having run) for all fiscal years up to and including the fiscal year ended December 31, 2011 and all amount owing in respect of such audit have been paid.

Section 5.10. Title to Property; Leases . The Company and its Subsidiaries have good and sufficient title to their respective Material properties, including all such properties reflected in the most recent audited balance sheet referred to in Section 5.5 or purported to have been acquired by the Company or any Subsidiary after said date (except as sold or otherwise disposed of in the ordinary course of business), in each case free and clear of Liens prohibited by this Agreement or the Indenture, except for those defects in title and Liens that, individually or in the aggregate, would not have a Material Adverse Effect. All Material leases are valid and subsisting and are in full force and effect in all material respects.

Section 5.11. Licenses, Permits, Etc . The Company and its Subsidiaries own or possess all licenses, permits, franchises, certificates of conveyance and necessity, authorizations, patents, copyrights, proprietary software, service marks, trademarks and trade names, or rights thereto, that are Material, without known conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 5.12. Compliance with ERISA . (a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3 of ERISA), and no event, transaction or condition has occurred or exists that would reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code or section 4068 of ERISA, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans subject to section 412 of the Code (other than Multiemployer Plans), determined as of January 1, 2014 based on such Plan's actuarial assumptions as of that date for funding purposes as documented in such Plan's actuarial valuation reports dated September 2014 did not exceed the aggregate current value of the assets of such Plan allocable to such benefit liabilities by more than \$5,000,000 in the case of any single Plan and by more than \$5,000,000 in the aggregate for all Plans. The term "*benefit liabilities*" has the meaning specified in section 4001 of ERISA and the terms "*current value*" and "*present value*" have the meaning specified in section 3 of ERISA.

(c) The Company and its ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 715-60, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Bonds hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company to each Purchaser in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of such Purchaser's representation in Section 6.2 as to the sources of the funds used to pay the purchase price of the Bonds to be purchased by such Purchaser.

Section 5.13. Private Offering by the Company . Neither the Company nor anyone acting on the Company's behalf has offered the Bonds or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than the Purchasers and not more than thirty (30) other Institutional Investors, each of which has been offered the Bonds in connection with a private sale for investment. Neither the Company nor anyone acting on its behalf has taken, or will take, any action that would subject the issuance or sale of the Bonds to the registration requirements of Section 5 of the Securities Act.

Section 5.14. Use of Proceeds; Margin Regulations . The Company will apply the proceeds of the sale of the Bonds to repay existing indebtedness and for general corporate purposes and in compliance with all laws referenced in Section 5.16. No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220). Margin stock does not constitute more than 2% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 2% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 5.15. Existing Debt . Except as described therein, Schedule 5.15(a) sets forth a complete and correct list of all outstanding Debt of the Company and its Subsidiaries as of September 30, 2014, since which date except as described therein there has been no Material change in the amounts, interest rates, sinking funds, installment payments or maturities of the Debt of the Company or its Subsidiaries. Neither the Company nor any Subsidiary is in default and no waiver of default is currently in effect, in the payment of any principal or interest on any Debt of the Company or any Subsidiary and no event or condition exists with respect to any Debt of the Company or any Subsidiary, the outstanding principal amount of which exceeds \$5,000,000 that would permit (or that with notice or the lapse of time, or both, would permit) one or more Persons to cause such Debt to become due and payable before its stated maturity or before its regularly scheduled dates of payment.

(b) Without limiting the representation in Section 5.6, the Company is not a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or any Subsidiary, any agreement relating thereto or any other agreement (including, but not

limited to, its charter or other organizational document) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt evidenced by the Bonds, except as specifically indicated in Schedule 5.15(b).

Section 5.16. Foreign Assets Control Regulations, Etc . (a) Neither the Company nor any Controlled Entity is (i) a Person whose name appears on the list of Specially Designated Nationals and Blocked Persons published by the Office of Foreign Assets Control, U.S. Department of Treasury (“OFAC”) or a Person that is otherwise subject to an OFAC Sanctions Program (an “OFAC Listed Person”) or (ii) a department, agency or instrumentality of, or is otherwise controlled by or acting on behalf of, directly or indirectly, (x) any OFAC Listed Person or (y) any Person, entity, organization, foreign country or regime that is subject to any OFAC Sanctions Program (each OFAC Listed Person and each other Person, entity, organization and government of a country described in clause (ii), a “Blocked Person”).

(b) No part of the proceeds from the sale of the Bonds hereunder constitutes or will constitute funds obtained on behalf of any Blocked Person or will otherwise be used, directly by the Company or indirectly through any Controlled Entity, in connection with any investment in, or any transactions or dealings with, any Blocked Person or for investment in the Iranian energy sector (as defined in Section 201 (1) of CISADA).

(c) To the Company’s knowledge after making due inquiry, neither the Company nor any Controlled Entity (i) is under investigation by any Governmental Authority for, or has been charged with, or convicted of, money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes under any applicable law (collectively, “Anti-Money Laundering Laws”), (ii) has been assessed civil penalties under any Anti-Money Laundering Laws or (iii) has had any of its funds seized or forfeited in an action under any Anti-Money Laundering Laws. The Company has taken reasonable measures appropriate to the circumstances (in any event as required by applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future Anti-Money Laundering Laws.

(d) No part of the proceeds from the sale of the Bonds hereunder will be used, directly or indirectly, for any improper payments to any governmental official or employee, political party, official of a political party, candidate for political office, official of any public international organization or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage. The Company has taken reasonable measures appropriate to the circumstances (in any event as required by applicable law) to ensure that the Company and each Controlled Entity is and will continue to be in compliance with all applicable current and future anti-corruption laws and regulations.

Section 5.17. Status under Certain Statutes . Neither the Company nor any Subsidiary is subject to regulation under the Investment Company Act of 1940, as amended, the Public Utility Holding Company Act of 2005, as amended, the ICC Termination Act of 1995, as amended, or subject to rate regulation under the Federal Power Act, as amended.

Section 5.18. Environmental Matters . Neither the Company nor any Subsidiary has knowledge of any claim or has received any notice of any claim, and no proceeding has been instituted of which it has received notice, raising any claim against the Company or any of its Subsidiaries or any of their respective real properties now or formerly owned, leased or operated by any of them, or other assets, alleging damage to the environment or any violation of any Environmental Laws, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed to the Purchaser in writing:

(a) neither the Company nor any Subsidiary has knowledge of any facts which would give rise to any claim, public or private, for violation of Environmental Laws or damage to the environment emanating from, occurring on or in any way related to real properties or to other assets now or formerly owned, leased or operated by any of them or their use, except, in each case, such as could not reasonably be expected to result in a Material Adverse Effect;

(b) neither the Company nor any of its Subsidiaries has stored any Hazardous Materials on real properties now or formerly owned, leased or operated by any of them or has disposed of any Hazardous Materials in each case in a manner contrary to any Environmental Laws and in any manner that could reasonably be expected to result in a Material Adverse Effect; and

(c) all buildings on all real properties now owned, leased or operated by the Company or any of its Subsidiaries are in compliance with applicable Environmental Laws, except where failure to comply could not reasonably be expected to result in a Material Adverse Effect.

Section 5.19. Lien of Indenture . The Indenture (and for avoidance of doubt including the Supplement) constitutes a direct and valid Lien upon the Trust Estate, subject only to the exceptions referred to in the Indenture and Permitted Liens, and will create a similar Lien upon all properties and assets acquired by the Company after the date hereof which are required to be subjected to the Lien of the Indenture, when acquired by the Company, subject only to the exceptions referred to in the Indenture and Permitted Liens, and subject, further, as to real property interests, to the recordation of a supplement to the Indenture describing such after-acquired property; the descriptions of all such properties and assets contained in the granting clauses of the Indenture are correct and adequate for the purposes of the Indenture; the Indenture has been duly recorded as a mortgage and deed of trust of real estate, and any required filings with respect to personal property and fixtures subject to the Lien of the Indenture have been duly made in each place in which such recording or filing is required to protect, preserve and perfect the Lien of the Indenture; and all taxes and recording and filing fees required to be paid with respect to the execution, recording or filing of the Indenture, the filing of financing statements related thereto and similar documents and the issuance of the Bonds have been paid.

Section 5.20. Filings . No action, including any filings, registration or notice, is necessary or advisable in Pennsylvania or any other jurisdictions to ensure the legality, validity and enforceability of the Financing Agreements, except such action as has been previously taken, which action remains in full force and effect. No action, including any filing, registration or

notice, is necessary or advisable in Pennsylvania or any other jurisdiction to establish or protect for the benefit of the Trustee and the holders of Bonds, the security interest and Liens purported to be created under the Indenture and the priority and perfection thereof and the other Financing Agreements, except such action as has been previously taken, which action remains in full force and effect.

Section 6. Representations of the Purchasers

Section 6.1. Purchase for Investment. Each Purchaser severally represents that it is purchasing the Bonds for its own account or for one or more separate accounts maintained by such Purchaser or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of such Purchaser's or their property shall at all times be within such Purchaser's or their control. Each Purchaser understands that the Bonds have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Bonds.

Section 6.2. Source of Funds. Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "*Source*") to be used by such Purchaser to pay the purchase price of the Bonds to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("*PTE*") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the NAIC (the "*NAIC Annual Statement*")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained

by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an “investment fund” (within the meaning of Part VI of PTE 84-14 (the “*QPAM Exemption*”)) managed by a “qualified professional asset manager” or “QPAM” (within the meaning of Part VI of the QPAM Exemption), no employee benefit plan’s assets that are managed by the QPAM in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, represent more than 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM maintains an ownership interest in the Company that would cause the QPAM and the Company to be “related” within the meaning of Part VI(h) of the QPAM Exemption and (i) the identity of such QPAM and (ii) the names of any employee benefit plans whose assets in the investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Part VI(c)(1) of the QPAM Exemption) of such employer or by the same employee organization, represent 10% or more of the assets of such investment fund, have been disclosed to the Company in writing pursuant to this clause (d);or

(e) the Source constitutes assets of a “plan(s)” (within the meaning of Part IV(h) of PTE 96-23 (the “*INHAM Exemption*”)) managed by an “in-house asset manager” or “INHAM” (within the meaning of Part IV(a) of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of “control” in Part IV(d)(3) of the INHAM Exemption) owns a 10% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms “*employee benefit plan*,” “*governmental plan*,” and “*separate account*” shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 7. Information as to Company .

Section 7.1. Financial and Business Information . The Company shall deliver to each holder of Bonds that is an Institutional Investor:

(a) *Quarterly Statements* — within 60 days after the end of each quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows, subject to changes resulting from year-end adjustments, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the Electronic Municipal Market Access ("*EMMA*") database shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) *Annual Statements* — within 120 days after the end of each fiscal year of the Company, duplicate copies of:

(i) a consolidated balance sheet of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated statements of income, changes in shareholders' equity and cash flows of the Company and its Subsidiaries for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by an opinion thereon of independent public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the financial position of the companies being reported upon and their results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in

accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) *SEC and Other Reports* — promptly upon their becoming available, one copy of (i) each financial statement, report, notice or proxy statement sent by the Company or any Subsidiary to its public securities holders generally, and (ii) each regular or periodic report, each registration statement that shall have become effective (without exhibits except as expressly requested by such holder), and each final prospectus and all amendments thereto filed by the Company or any Subsidiary with the SEC, *provided* that the delivery within the time period specified above of the Company's said financial statements, prepared in accordance with the requirements therefor and filed with the Municipal Securities Rulemaking Board on the EMMA database shall be deemed to satisfy the requirements of this Section 7.1(c);

(d) *Notice of Default or Event of Default* — promptly, and in any event within five days after a Responsible Officer becomes aware of the existence of any Default or Event of Default, a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) *ERISA Matters* — promptly, and in any event within five days after a Responsible Officer becomes aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan (other than any Multiemployer Plan) that is subject to Title IV of ERISA, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date hereof and on the date of the Closing; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or

IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, would reasonably be expected to have a Material Adverse Effect;

(f) *Notices from Governmental Authority* — promptly, and in any event within 30 days of receipt thereof, copies of any notice to the Company or any Subsidiary from any federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) *Requested Information* — with reasonable promptness, following the receipt by the Company of a written request by such holder of Bonds, the names and contact information of holders of the outstanding bonds issued under the Indenture (i.e. the bonds in which the Company or a trustee is required to keep in a register and that are not publicly traded) of which the Company has knowledge and the principal amount of the outstanding bonds issued under the Indenture owed to each holder (unless disclosure of such names, contact information or holdings is prohibited by law), and such data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Company to perform its obligations under any Financing Agreement as from time to time may be reasonably requested by such holder of Bonds; and

(h) *Deliveries to Trustee* — promptly, and in any event within five days after delivery to the Trustee, a copy of any deliveries made by the Company to the Trustee, including without limitation the annual report delivered to the Trustee pursuant to Article VIII, Section 12 of the Indenture.

Section 7.2 Officer's Certificate . Each set of financial statements delivered to a holder of Bonds pursuant to Section 7.1(a) or Section 7.1(b) shall be accompanied by a certificate of a Senior Financial Officer (which, in the case of financial statements filed with the Municipal Securities Rulemaking Board on the EMMA database, shall be by separate concurrent delivery of such certificate to each holder of Bonds) setting forth a statement that such Senior Financial Officer has reviewed the relevant terms hereof and of the Indenture and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review shall not have disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

Section 7.3. Visitation . The Company shall permit the representatives of each holder of Bonds that is an Institutional Investor:

(a) *No Default* — if no Default or Event of Default then exists, at the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and, with the consent of the Company (which consent will not be unreasonably withheld), to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times during normal business hours and as often as may be reasonably requested in writing; and

(b) *Default* — if a Default or Event of Default then exists, at the expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such reasonable times and as often as may be requested.

Section 8. Purchase of Bonds

The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Bonds except (a) upon the payment or prepayment of the Bonds in accordance with the terms of this Agreement and the Bonds or (b) pursuant to a written offer to purchase any outstanding Bonds made by the Company or an Affiliate pro rata to the holders of the Bonds upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least 15 Business Days. If the holders of more than 10% of the principal amount of the Bonds then outstanding accept such offer, the Company shall promptly notify the remaining holders of such fact and the expiration date for the acceptance by holders of Bonds of such offer shall be extended by the number of days necessary to give each such remaining holder at least 10 Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Bonds acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Bonds pursuant to any provision of this Agreement and no Bonds may be issued in substitution or exchange for any such Bonds.

Section 9. Affirmative Covenants

The Company covenants that so long as any of the Bonds are outstanding:

Section 9.1. Compliance with Law . Without limiting Section 10.4, the Company will, and will cause each of its Subsidiaries to, comply with all laws, ordinances or governmental rules or regulations to which each of them is subject, including, without limitation, ERISA, Environmental Laws, the USA Patriot Act and the other laws and regulations that are referred to in Section 5.16, and will obtain and maintain in effect all licenses, certificates, permits, franchises and other governmental authorizations necessary to the ownership of their respective properties or to the conduct of their respective businesses, in each case to the extent necessary to

ensure that non-compliance with such laws, ordinances or governmental rules or regulations or failures to obtain or maintain in effect such licenses, certificates, permits, franchises and other governmental authorizations could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.2. Insurance . The Company will cause each of its Subsidiaries to maintain, with financially sound and reputable insurers, insurance with respect to their respective properties and businesses against such casualties and contingencies, of such types, on such terms and in such amounts (including deductibles, co-insurance and self-insurance, if adequate reserves are maintained with respect thereto) as is customary in the case of entities of established reputations engaged in the same or a similar business and similarly situated.

Section 9.3. Maintenance of Properties . The Company will cause each of its Subsidiaries to maintain and keep, or cause to be maintained and kept, their respective properties in good repair, working order and condition (other than ordinary wear and tear), so that the business carried on in connection therewith may be properly conducted at all times, *provided* that this Section shall not prevent any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Company and such Subsidiary has concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 9.4. Payment of Taxes . The Company will cause each of its Subsidiaries to file all income tax or similar tax returns required to be filed in any jurisdiction and to pay and discharge all taxes shown to be due and payable on such returns and all other taxes, assessments, governmental charges, or levies payable by any of them, to the extent the same have become due and payable and before they have become delinquent, provided that any Subsidiary does not need to pay any such tax, assessment, charge or levy if (a) the amount, applicability or validity thereof is contested by the Company or such Subsidiary on a timely basis in good faith and in appropriate proceedings, and the Subsidiary has established adequate reserves therefor in accordance with GAAP on the books of such Subsidiary or (b) the nonpayment of all such taxes, assessments, charges and levies in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 9.5. Corporate Existence, Etc . The Company will at all times preserve and keep in full force and effect the corporate existence of each of its Subsidiaries (unless merged into the Company or a wholly-owned Subsidiary) and all rights and franchises of its Subsidiaries unless, in the good faith judgment of the Company or such Subsidiary, the termination of or failure to preserve and keep in full force and effect such corporate existence, right or franchise would not, individually or in the aggregate, have a Material Adverse Effect.

Section 9.6. Books and Records . The Company will, and will cause each of its Subsidiaries to, maintain proper books of record and account in conformity with GAAP and all applicable requirements of any Governmental Authority having legal or regulatory jurisdiction over the Company or such Subsidiary.

Section 10. Negative Covenants .

The Company covenants that so long as any of the Bonds are outstanding:

Section 10.1. Transactions with Affiliates . The Company will not and will not permit any Subsidiary to enter into directly or indirectly any Material transaction or Material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Company or another Subsidiary), except pursuant to the reasonable requirements of the Company's or such Subsidiary's business.

Section 10.2. Merger; Consolidation, Etc . The Company will not consolidate with or merge with any other Person or convey, transfer or lease all or substantially all of its assets in a single transaction or series of transactions to any Person unless:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease all or substantially all of the assets of the Company as an entirety, as the case may be, shall be a solvent corporation or limited liability company organized and existing under the laws of the United States or any State thereof (including the District of Columbia), and, if the Company is not such corporation or limited liability company, such corporation or limited liability company shall have executed and delivered to each holder of any Bonds its assumption of the due and punctual performance and observance of each covenant and condition of the Financing Agreements (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Bonds an opinion of nationally recognized independent counsel, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(b) immediately before and immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any successor corporation or limited liability company that shall theretofore have become such in the manner prescribed in this Section 10.2 from its liability under the Financing Agreements.

Section 10.3. Line of Business . The Company will not engage in any business if, as a result, the general nature of the business in which the Company and its Subsidiaries, taken as a whole, would then be engaged would be substantially changed from the general nature of the business in which the Company and its Subsidiaries, taken as whole, is engaged on the date of this Agreement.

Section 10.4. Terrorism Sanctions Regulations . The Company will not and will not permit any Controlled Entity to (a) become a Blocked Person or (b) have any investments in or engage in any dealings or transactions with any Blocked Person except in accordance with

applicable law and in a manner where such investments, transactions or dealings would not cause the purchase, holding or receipt of any payment or exercise of any rights in respect of any Bond by the holder thereof to be in violation of any laws or regulations administered by OFAC.

Section 11. Payments on Bonds .

Section 11.1. Home Office Payment . So long as any Purchaser or its nominee shall be the holder of any Bond, and notwithstanding anything contained in the Indenture or in such Bond to the contrary, the Company will pay, or cause to be paid by a paying agent, a trustee or other similar party, all sums becoming due on such Bond for principal, Make-Whole Amount or premium, if any, and interest by the method and at the address specified for such purpose below such Purchaser's name in Schedule A, or by such other method or at such other address as such Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Bond or the making of any notation thereon, except that upon written request of the Company or any paying agent made concurrently with or reasonably promptly after payment or prepayment in full of any Bond, such Purchaser shall surrender such Bond for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Article II of the Indenture. Prior to any sale or other disposition of any Bond held by a Purchaser or its nominee, such Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Bond to the Company in exchange for a new Bond or Bonds pursuant to Article II of the Indenture. The Company will afford the benefits of this Section 11.1 to any Institutional Investor that is the direct or indirect transferee of any Bond purchased by a Purchaser under this Agreement and that has made the same agreement relating to such Bond as the Purchasers have made in this Section 11.1.

Section 12. Registration; Exchange; Expenses, Etc .

Section 12.1. Registration of Bonds . The Company shall cause the Trustee to keep a register for the registration and registration of transfers of Bonds in accordance with Article XIII, Section 9 of the Indenture.

Section 12.2. Transaction Expenses . Whether or not the transactions contemplated hereby are consummated, the Company will pay all reasonable costs and expenses (including reasonable attorneys' fees of a special counsel and, if reasonably required by the Required Holders, local or other counsel) incurred by the Purchasers and each other holder of a Bond in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of any Financing Agreement (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under any Financing Agreement or in responding to any subpoena or other legal process or informal investigative demand issued in connection with any Financing Agreement, or by reason of being a holder of any Bond, (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated by any

Financing Agreement and (c) the costs and expenses incurred in connection with the initial filing of any Financing Agreement and all related documents and financial information with the SVO, provided that such costs and expenses under this clause (c) shall not exceed \$5,000 for the Bonds. The Company will pay, and will save each Purchaser and each other holder of a Bond harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those, if any, retained by a Purchaser or other holder in connection with its purchase of the Bonds).

Section 12.3. Survival . The obligations of the Company under this Section 12 will survive the payment or transfer of any Bond, the enforcement, amendment or waiver of any provision of any Financing Agreement, and the termination of any Financing Agreement.

Section 13. *Survival of Representations and Warranties; Entire Agreement* .

All representations and warranties contained herein shall survive the execution and delivery of this Agreement, the purchase or transfer by any Purchaser of any Bond or portion thereof or interest therein and the payment of any Bond, and may be relied upon by any subsequent holder of a Bond, regardless of any investigation made at any time by or on behalf of such Purchaser or any other holder of a Bond. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, the Financing Agreements embody the entire agreement and understanding between each Purchaser and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 14. *Amendment and Waiver* .

Section 14.1. Requirements . This Agreement and the Bonds may be amended, and the observance of any term hereof or of the Bonds may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders, except that (i) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4, 5, 6 or 19 hereof, or any defined term, will be effective as to any holder of Bonds unless consented to by such holder of Bonds in writing, and (ii) no such amendment or waiver may, without the written consent of all of the holders of Bonds at the time outstanding affected thereby, (A) subject to the provisions of the Indenture relating to acceleration, change the amount or time of any prepayment or payment of principal of, or reduce the rate or change the time of payment or method of computation of interest (if such change results in a decrease in the interest rate) or of the Make-Whole Amount on, the Bonds, (B) change the percentage of the principal amount of the Bonds the holders of which are required to consent to any such amendment or waiver, or (C) amend any of Sections 8, 14 or 18.

Section 14.2. Solicitation of Holders of Bonds .

(a) *Solicitation*. The Company will provide each holder of the Bonds (irrespective of the amount of Bonds then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered

decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Bonds. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 14 to each holder of outstanding Bonds promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Bonds.

(b)*Payment.* The Company will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise (other than legal fees or other related expenses), or grant any security or provide other credit support, to any holder of Bonds as consideration for or as an inducement to the entering into by any holder of Bonds or any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of Bonds then outstanding even if such holder did not consent to such waiver or amendment.

(c)*Consent in Contemplation of Transfer.* Any consent made pursuant to this Section 14 by the holder of any Bond that has transferred or has agreed to transfer such Bond to the Company, any Subsidiary or any Affiliate of the Company and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Bonds that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such transferring holder.

Section 14.3. Binding Effect, Etc. . Any amendment or waiver consented to as provided in this Section 14 applies equally to all holders of Bonds and is binding upon them and upon each future holder of any Bond and upon the Company without regard to whether such Bond has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Bond nor any delay in exercising any rights hereunder or under any Bond shall operate as a waiver of any rights of any holder of such Bond. As used herein, the term “this Agreement” and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 14.4. Bonds Held by Company, Etc. . Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Bonds then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Bonds, or have directed the taking of any action provided herein or in the Bonds to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Bonds then outstanding, Bonds directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

Section 15. Notices .

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to any Purchaser or its nominee, to such Purchaser or nominee at the address specified for such communications in Schedule A, or at such other address as such Purchaser or nominee shall have specified to the Company in writing,

(ii) if to any other holder of any Bond, to such holder at such address as such other holder shall have specified to the Company in writing, or

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010-3489 , or at such other address as the Company shall have specified to the holder of each Bond in writing, or

(iv) if to the Trustee, to The Bank of New York Mellon Trust Company, N.A., as Trustee, 1735 Market Street, 6th Floor, AIM No.: 193-0650, Philadelphia, PA 19103, or at such other address as the Trustee shall have specified to the Company and each other party hereto in writing.

Notices under this Section 15 will be deemed given only when actually received.

Section 16. Indemnification .

The Company hereby agrees to indemnify and hold the Purchasers harmless from, against and in respect of any and all loss, liability and expense (including reasonable attorneys' fees) arising from any misrepresentation or nonfulfillment of any undertaking on the part of the Company under this Agreement. The indemnification obligations of the Company under this Section 16 shall survive the execution and delivery of this Agreement, the delivery of the Bonds to the Purchasers and the consummation of the transactions contemplated herein.

Section 17. Reproduction of Documents .

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by any Purchaser at the Closing (except the Bonds themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to any Purchaser, may be reproduced by such Purchaser by any photographic, photostatic, electronic, digital, or other similar process and such Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative

proceeding (whether or not the original is in existence and whether or not such reproduction was made by such Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 17 shall not prohibit the Company or any other holder of Bonds from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

Section 18. Confidential Information

For the purposes of this Section 18, “*Confidential Information*” means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser’s behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 7.1 of this Agreement or under the Indenture that are otherwise publicly available. Each Purchaser will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (i) its directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by Bonds), (ii) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 18, (iii) any other holder of any Bond, (iv) any Institutional Investor to which it sells or offers to sell such Bond or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (v) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 18), (vi) any federal or state or provincial regulatory authority having jurisdiction over such Purchaser, (vii) the NAIC or the SVO or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser’s investment portfolio, or (viii) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under any Financing Agreement. Each holder of a Bond, by its acceptance of a Bond, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 18 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Bond of information required to be delivered to such holder under this

Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 18.

In the event that as a condition to receiving access to information relating to the Company or its Subsidiaries in connection with the transactions contemplated by or otherwise pursuant to this Agreement, any Purchaser or holder of a Bond is required to agree to a confidentiality undertaking (whether through EMMA, another secure website, a secure virtual workspace or otherwise) which is different from this Section 18, this Section 18 shall not be amended thereby and, as between such Purchaser or such holder and the Company, this Section 18 shall supersede any such other confidentiality undertaking.

Section 19. Miscellaneous .

Section 19.1. Successors and Assigns . All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Bond) whether so expressed or not.

Section 19.2. Accounting Terms . All accounting terms used herein which are not expressly defined in this Agreement have the meanings respectively given to them in accordance with GAAP. Except as otherwise specifically provided herein, (a) all computations made pursuant to this Agreement shall be made in accordance with GAAP, and (b) all financial statements shall be prepared in accordance with GAAP. For purposes of determining compliance with the financial covenants contained in the Financing Agreements, if any, any election by the Company to measure Debt using fair value (as permitted by Financial Accounting Standards Board Accounting Standards Codification Topic No. 825-10-25 – *Fair Value Option*, International Accounting Standard 39 – *Financial Instruments: Recognition and Measurement* or any similar accounting standard) shall be disregarded and such determination shall be made as if such election had not been made and such Debt shall be valued at not less than 100% of the principal amount thereof.

Section 19.3. Severability . Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 19.4. Construction, Etc . Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

For the avoidance of doubt, all Schedules and Exhibits attached to this Agreement shall be deemed to be a part hereof.

Section 19.5. Counterparts . This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 19.6. Governing Law . This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the Commonwealth of Pennsylvania excluding choice-of-law principles of the law of such State that would permit the application of the laws of a jurisdiction other than such State.

Section 19.7. Jurisdiction and Process; Waiver of Jury Trial . (a) The Company irrevocably submits to the non-exclusive jurisdiction of any Pennsylvania State or federal court sitting in Philadelphia, Pennsylvania, over any suit, action or proceeding arising out of or relating to this Agreement or the Bonds. To the fullest extent permitted by applicable law, the Company irrevocably waives and agrees not to assert, by way of motion, as a defense or otherwise, any claim that it is not subject to the jurisdiction of any such court, any objection that it may now or hereafter have to the laying of the venue of any such suit, action or proceeding brought in any such court and any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

(b) The Company consents to process being served by or on behalf of any holder of Bonds in any suit, action or proceeding of the nature referred to in Section 19.7(a) by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, return receipt requested, to it at its address specified in Section 15 or at such other address of which such holder shall then have been notified pursuant to said Section. The Company agrees that such service upon receipt (i) shall be deemed in every respect effective service of process upon it in any such suit, action or proceeding and (ii) shall, to the fullest extent permitted by applicable law, be taken and held to be valid personal service upon and personal delivery to it. Notices hereunder shall be conclusively presumed received as evidenced by a delivery receipt furnished by the United States Postal Service or any reputable commercial delivery service.

(c) Nothing in this Section 19.7 shall affect the right of any holder of a Bond to serve process in any manner permitted by law, or limit any right that the holders of any of the Bonds may have to bring proceedings against the Company in the courts of any appropriate jurisdiction or to enforce in any lawful manner a judgment obtained in one jurisdiction in any other jurisdiction.

(d) The parties hereto hereby waive trial by jury in any action brought on or with respect to this Agreement, the Bonds or any other document executed in connection herewith or therewith.

Section 19.8. Payments Due on Non-Business Days . Anything in this Agreement or the Bonds to the contrary notwithstanding (but without limiting the requirement in Section 8.4 that the notice of any optional prepayment specify a Business Day as the date fixed for such prepayment), any payment of principal of or Make-Whole Amount or interest on any Bond that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day; provided that if the maturity date of any Bond is a date other than a Business Day, the payment otherwise due on such maturity date shall be made on the next succeeding Business Day and shall include the additional days elapsed in the computation of interest payable on such next succeeding Business Day.

* * * * *

If you are in agreement with the foregoing, please sign the form of agreement on a counterpart of this Bond Purchase Agreement and return it to the Company, whereupon this Agreement shall become a binding agreement between you and the Company.

Very truly yours,

Aqua Pennsylvania, Inc.

By: /s/ David P. Smeltzer
Name: David P. Smeltzer
Title: Executive Vice President, Chief Financial
Officer

AQUA PENNSYLVANIA,
INC.

Bond Purchase Agreement

Accepted as of the date first written above.

THRIVENT FINANCIAL FOR LUTHERANS

By: /s/ William J. Hochmuth
Name: William J. Hochmuth
Title: Director

AQUA PENNSYLVANIA,
INC.

Bond Purchase Agreement

Accepted as of the date first written above.

STATE FARM LIFE INSURANCE COMPANY

By: /s/ Julie Hoyer
Name: Julie Hoyer
Title: Senior Investment Officer – Fixed Income

By: /s/ Jeffrey Attwood
Name: Jeffrey Attwood
Title: Investment Officer

AQUA PENNSYLVANIA,
INC.

Bond Purchase Agreement

Accepted as of the date first written above.

JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A)

By: /s/ Pradeep Killamsetty
Name: Pradeep Killamsetty
Title: Managing Director

AQUA PENNSYLVANIA,
INC.

Bond Purchase Agreement

Accepted as of the date first written above.

PHOENIX LIFE INSURANCE COMPANY

By: /s/ Nelson Correa
Name: Nelson Correa
Title: Senior Managing Director, Private
Placements

PHL VARIABLE INSURANCE COMPANY

By: /s/ Nelson Correa
Name: Nelson Correa
Title: It Duly Authorized Officer

AQUA PENNSYLVANIA,
INC.

Bond Purchase Agreement

Accepted as of the date first written above.

MUTUAL OF OMAHA INSURANCE COMPANY

By: /s/ Curtis R. Caldwell
Name: Curtis R. Caldwell
Title: Senior Vice President

COMANION LIFE INSURANCE COMPANY

By: /s/ Curtis R. Caldwell
Name: Curtis R. Caldwell
Title: An Authorized Signer

Information Relating to Purchasers

Name and Address of Purchaser	Principal Amount of Bonds to be Purchased
[Name of Purchaser]	\$
<p>(1) All payments by wire transfer of immediately available funds to:</p> <p style="padding-left: 40px;">with sufficient information to identify the source and application of such funds.</p>	
<p>(2) All notices of payments and written confirmations of such wire transfers:</p>	
<p>(3) All other communications:</p>	

SCHEDULE A
(to Bond Purchase Agreement)

Defined Terms

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

“*Affiliate*” means, at any time, and with respect to any Person, any other Person that at such time directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, such first Person. As used in this definition, “*Control*” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. Unless the context otherwise clearly requires, any reference to an “*Affiliate*” is a reference to an Affiliate of the Company.

“*Anti-Money Laundering Laws*” is defined in Section 5.16(c).

“*Blocked Person*” is defined in Section 5.16(a).

“*Bonds*” is defined in Section 1.

“*Business Day*” means for the purposes of any provision of this Agreement, any day other than a Saturday, a Sunday or a day on which commercial banks in New York, New York or Philadelphia, Pennsylvania are required or authorized to be closed.

“*Capital Lease*” means, at any time, a lease with respect to which the lessee is required concurrently to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

“*Capital Lease Obligation*” means, with respect to any Person and a Capital Lease, the amount of the obligation of such Person as the lessee under such Capital Lease which would, in accordance with GAAP, appear as a liability on a balance sheet of such Person.

“*CISADA*” means the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, United States Public Law 111195, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“*Closing*” is defined in Section 3.

“*Closing Date*” is the date of the Closing.

“*Code*” means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations promulgated thereunder from time to time.

“*Company*” means Aqua Pennsylvania, Inc., a corporation existing under the laws of the Commonwealth of Pennsylvania.

Schedule B
(to Bond Purchase Agreement)

“*Controlled Entity*” means any of the Subsidiaries of the Company and any of their or the Company’s respective Controlled Affiliates. As used in this definition, “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“*Debt*” means, with respect to any Person, without duplication,

- (a) its liabilities for borrowed money;
- (b) its liabilities for the deferred purchase price of property acquired by such Person (excluding accounts payable and other accrued liabilities arising in the ordinary course of business but including, without limitation, all liabilities created or arising under any conditional sale or other title retention agreement with respect to any such property);
- (c) its Capital Lease Obligations;
- (d) all liabilities for borrowed money secured by any Lien with respect to any property owned by such Person (whether or not it has assumed or otherwise become liable for such liabilities);
- (e) all non-contingent liabilities in respect of reimbursement agreements or similar agreements in respect of letters of credit or instruments serving a similar function issued or accepted for its account by banks and other financial institutions;
- (f) Swaps of such Person; and
- (g) Guaranties of such Person with respect to liabilities of a type described in any of clauses (a) through (f) hereof.

Debt of any Person shall include all obligations of such Person of the character described in clauses (a) through (g) to the extent such Person remains legally liable in respect thereof notwithstanding that any such obligation is deemed to be extinguished under GAAP.

“*Default*” means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

“*Disclosure Documents*” is defined in Section 5.3.

“*EMMA*” is defined in Section 7.1(a).

“*Environmental Laws*” means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including but not limited to those related to Hazardous Materials.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that is treated as a single employer together with the Company under section 414 of the Code.

“Event of Default” is defined in the Indenture.

“Financing Agreements” means this Agreement, the Indenture (including without limitation the Supplement), and the Bonds.

“GAAP” means generally accepted accounting principles as in effect from time to time in the United States of America.

“Governmental Authority” means:

(a) the government of

(i) the United States of America or any State or other political subdivision thereof, or

(ii) any other jurisdiction in which the Company or any Subsidiary conducts all or any part of its business, or which asserts jurisdiction over any properties of the Company or any Subsidiary, or

(b) any entity exercising executive, legislative, judicial, regulatory or administrative functions of, or pertaining to, any such government.

“Guaranty” means, with respect to any Person, any obligation (except the endorsement in the ordinary course of business of negotiable instruments for deposit or collection) of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person in any manner, whether directly or indirectly, including (without limitation) obligations incurred through an agreement, contingent or otherwise, by such Person:

(a) to purchase such Debt or obligation or any property constituting security therefor primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation;

(b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation, or (ii) to maintain any working capital or other balance sheet condition or any income statement condition of any other Person or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation;

(c) to lease properties or to purchase properties or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of any other Person to make payment of the Debt or obligation; or

(d) otherwise to assure the owner of such Debt or obligation against loss in respect thereof.

In any computation of the Debt or other liabilities of the obligor under any Guaranty, the Debt or other obligations that are the subject of such Guaranty shall be assumed to be direct obligations of such obligor, *provided* that the amount of such Debt outstanding for purposes of this Agreement shall not exceed the maximum amount of Debt that is the subject of such Guaranty.

“Hazardous Material” means any and all pollutants, toxic or hazardous wastes or other substances that might pose a hazard to health and safety, the removal of which may be required or the generation, manufacture, refining, production, processing, treatment, storage, handling, transportation, transfer, use, disposal, release, discharge, spillage, seepage or filtration of which is or shall be restricted, prohibited or penalized by any applicable law including, but not limited to, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum products, lead based paint, radon gas or similar restricted, prohibited or penalized substances.

“holder” is defined in the Indenture.

“Indenture” is defined in Section 1.

“Institutional Investor” means (a) any Purchaser of a Bond, (b) any holder of a Bond holding (together with one or more of its affiliates) more than 5% of the aggregate principal amount of the Bonds then outstanding, (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form, and (d) any Related Fund of any holder of any Bond.

“Lien” means, with respect to any Person, any mortgage, lien, pledge, charge, security interest or other encumbrance, or any interest or title of any vendor, lessor, lender or other secured party to or of such Person under any conditional sale or other title retention agreement or Capital Lease, upon or with respect to any property or asset of such Person (including in the case of stock, stockholder agreements, voting trust agreements and all similar arrangements).

“Make-Whole Amount” is defined in the Supplement.

“Material” means material in relation to the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries taken as a whole.

“Material Adverse Effect” means a material adverse effect on (a) the business, operations, affairs, financial condition, assets or properties of the Company and its Subsidiaries

taken as a whole, (b) the ability of the Company to perform its obligations under this Agreement, the Bonds or the Indenture or (c) the validity or enforceability of any Financing Agreement.

“*Multiemployer Plan*” means any Plan that is a “multiemployer plan” (as such term is defined in section 4001(a)(3) of ERISA).

“*NAIC*” means the National Association of Insurance Commissioners or any successor thereto.

“*OFAC*” is defined in Section 5.16(a).

“*OFAC Listed Person*” is defined in Section 5.16(a).

“*OFAC Sanctions Program*” means all laws, regulations, Executive Orders and any economic or trade sanction that OFAC is responsible for administering and enforcing, including, without limitation 31 CFR Subtitle B, Chapter V, as amended, along with any enabling legislation; the Bank Secrecy Act; Trading with the Enemy Act; and any similar laws, regulations or orders adopted by any State within the United States. A list of economic and trade sanctions administered by OFAC may be found at <http://www.ustreas.gov/offices/enforcement/ofac/programs/>.

“*Officer’s Certificate*” means a certificate of a Senior Financial Officer or of any other officer of the Company whose responsibilities extend to the subject matter of such certificate.

“*Original Indenture*” is defined in Section 1.

“*PBGC*” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

“*Permitted Liens*” shall have the meaning assigned to such term in the Indenture.

“*Person*” means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, business entity or Governmental Authority.

“*Plan*” means an “employee benefit plan” (as defined in section 3(2) of ERISA) subject to Title I of ERISA that is or, within the preceding five years, has been established or maintained, or to which contributions are or, within the preceding five years, have been made or required to be made, by the Company or any ERISA Affiliate or with respect to which the Company or any ERISA Affiliate may have any liability.

“*property*” or “*properties*” means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

“*PTE*” is defined in Section 6.2(a).

“*Purchaser*” is defined in the first paragraph of this Agreement.

“Related Fund” means, with respect to any holder of any Bond, any fund or entity that (i) invests in Securities or bank loans, and (ii) is advised or managed by such holder, the same investment advisor as such holder or by an affiliate of such holder or such investment advisor.

“Required Holders” means, at any time, the holders of at least 51% in principal amount of the Bonds at the time outstanding (exclusive of Bonds then owned by the Company or any of its Affiliates).

“Responsible Officer” means any Senior Financial Officer and any other officer of the Company with responsibility for the administration of the relevant portion of this Agreement.

“SEC” means the Securities and Exchange Commission of the United States, or any successor thereto.

“Securities” or *“Security”* shall have the meaning specified in Section 2(1) of the Securities Act.

“Securities Act” means the Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

“Senior Financial Officer” means the chief financial officer, principal accounting officer, treasurer or comptroller of the Company.

“Source” is defined in Section 6.2.

“Subsidiary” means, as to any Person, any other Person in which such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries owns sufficient equity or voting interests to enable it or them (as a group) ordinarily, in the absence of contingencies, to elect a majority of the directors (or Persons performing similar functions) of such second Person, and any partnership or joint venture if more than a 50% interest in the profits or capital thereof is owned by such first Person or one or more of its Subsidiaries or such first Person and one or more of its Subsidiaries (unless such partnership or joint venture can and does ordinarily take major business actions without the prior approval of such Person or one or more of its Subsidiaries. Unless the context otherwise clearly requires, any reference to a “Subsidiary” is a reference to a Subsidiary of the Company.

“Supplement” is defined in Section 1.

“SVO” means the Securities Valuation Office of the NAIC or any successor to such Office.

“Swaps” means, with respect to any Person, payment obligations with respect to interest rate swaps, currency swaps and similar obligations obligating such Person to make payments, whether periodically or upon the happening of a contingency. For the purposes of this Agreement, the amount of the obligation under any Swap shall be the amount determined in respect thereof as of the end of the then most recently ended fiscal quarter of such Person, based

on the assumption that such Swap had terminated at the end of such fiscal quarter, and in making such determination, if any agreement relating to such Swap provides for the netting of amounts payable by and to such Person thereunder or if any such agreement provides for the simultaneous payment of amounts by and to such Person, then in each such case, the amount of such obligation shall be the net amount so determined.

“Trust Estate” is defined in Section 1.

“Trustee” is defined in the Indenture.

“UCC” means, the Uniform Commercial Code as enacted and in effect from time to time in the state whose laws are treated as applying to the Trust Estate.

“USA Patriot Act” means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

**Aqua Pennsylvania, Inc.
Subsidiaries of the Company,
Ownership of Subsidiary Stock**

Company Name	State of Incorporation	% of Ownership (Direct & Indirect)
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Little Washington Wastewater Company	Pennsylvania	100%
2. The Hawley Water Company	Pennsylvania	100%
3. Honesdale Consolidated Water Company	Pennsylvania	100%

Schedule 5.4
(to Bond Purchase Agreement)

Financial Statements

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the years ended December 31, 2013 and 2012 (audited)
2. Aqua Pennsylvania, Inc. Report for Quarter Ended September 30, 2014

Schedule 5.5
(to Bond Purchase Agreement)

Schedule 5.15(a)
Existing Debt

Attached.

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Schedule 5.15(a)
(to Bond Purchase Agreement)

Schedule 5.15(b)

**Aqua Pennsylvania, Inc. and Subsidiaries
Debt Issuance Limitations**

Indenture of Mortgage dated as of January 1, 1941 of Aqua Pennsylvania, Inc., as supplemented and amended

\$100 million Revolving Credit Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association, as Agent, date as of November 30, 2010, as amended

Aqua Pennsylvania, Inc. \$40,000,000 5.95% Senior Notes dated March 31, 2006

Aqua Pennsylvania, Inc. \$20,000,000 5.64% Senior Notes dated September 29, 2006

Aqua Pennsylvania, Inc. \$2,132,180 5.50% Senior Notes dated May 15, 2007

*Aqua Pennsylvania, Inc. \$40,000,000 5.66% Senior Notes dated December 28, 2007

\$50 million Term Loan Agreement among Aqua Pennsylvania, Inc. and PNC Bank, National Association, as Agent, dated as of September 29, 2014

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Schedule 5.15(b)
(to Bond Purchase Agreement)

[Form of Supplement]

[See Attached]

Exhibit A
(to Bond Purchase Agreement)

**Form of Opinion of General Counsel
to the Company**

[See attached]

Exhibit 4.4(a)
(to Bond Purchase Agreement)

**Form of Opinion of Special Counsel
to the Company**

[See attached]

Exhibit 4.4(b)
(to Bond Purchase Agreement)

**Form of Opinion of Special Counsel
to the Purchasers**

[Delivered to Purchasers only]

Non-Employee Directors' Compensation for 2015

At its regularly scheduled meeting on December 2, 2014, the Board of Directors of Aqua America, Inc., upon the recommendation of its Corporate Governance Committee and its Executive Compensation Committee, approved the following directors' compensation for 2015 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$50,000; (2) an annual cash retainer for the Chair of the Executive Compensation Committee of \$12,500; (3) an annual cash retainer for the Chair of the Audit Committee of \$12,500; (4) an annual cash retainer for the Chair of the Corporate Governance Committee of \$10,000; (5) an annual cash retainer for the Independent Lead Director of \$25,000; (6) a meeting fee of \$2,000 for each meeting of the Board of Directors; (7) a meeting fee of \$1,500 per meeting for meetings of the Board Committees; and (8) an annual stock grant to directors of \$60,000, rounded to the nearest 100 shares payable on the first of the month following the Annual Meeting of Shareholders; and, (9) in the event the Board of Directors establishes the position of non-executive Chairman of the Board, the non-executive Chairman shall be paid a retainer in the amount of \$200,000 per year, the normal Director equity award as set forth above, and shall receive no separate meeting fees as compensation for his role as non-executive Chairman of the Board. All Directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2014

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

This report by Aqua America, Inc. ("Aqua America," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, that may be outside our control and that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential," "continue", "in the event", or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- recovery of capital expenditures and expenses in rates;
- projected capital expenditures and related financing requirements;
- the availability and cost of capital financing;
- development, trends and consolidations within the water and wastewater industries;
- dividend payment projections;
- future financing plans;
- future pension contributions;
- the impact of changes in income tax laws regarding tax-basis depreciation on capital additions, and income tax deductions for qualifying utility asset improvements;
- our determination of what qualifies as a capital cost versus an income tax deduction for qualifying utility asset improvements;
- opportunities for future acquisitions, the success of pending acquisitions and the impact of future acquisitions;
- acquisition-related costs and synergies;
- the sale of water and wastewater divisions;
- the capacity of our water supplies, water facilities and wastewater facilities;
- the impact of geographic diversity on our exposure to unusual weather;
- the impact of conservation awareness of customers and more efficient plumbing fixtures and appliances on water usage;
- the availability and cost of key production necessities, including power, chemicals and purchased water or wastewater services;
- the availability of qualified personnel;
- the return performance of our defined benefit pension and other post-retirement plans' assets;
- general economic conditions;
- the impact of Federal and/or state tax policies and the regulatory treatment of the effects of those policies; and
- the impact of accounting pronouncements and income taxation policies.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- changes in general economic, business, credit and financial market conditions;
 - changes in governmental laws, regulations and policies, including those dealing with taxation, the environment, health and water quality, and public utility regulation;
 - changes to the rules or our assumptions underlying our determination of what qualifies for an income tax deduction for qualifying utility asset improvements;
 - the decisions of governmental and regulatory bodies, including decisions on rate increase requests;
 - our ability to file rate cases on a timely basis to minimize regulatory lag;
 - abnormal weather conditions, including those that result in water use restrictions;
-

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

- changes in, or unanticipated, capital requirements;
- changes in our credit rating or the market price of our common stock;
- our ability to integrate businesses, technologies or services which we may acquire;
- our ability to manage the expansion of our business;
- our ability to treat and supply water or collect and treat wastewater;
- the extent to which we are able to develop and market new and improved services;
- the effect of the loss of major customers;
- our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- labor disputes;
- increasing difficulties in obtaining insurance and increased cost of insurance;
- cost overruns relating to improvements to, or the expansion of, our operations;
- increases in the costs of goods and services;
- civil disturbance or terroristic threats or acts;
- the continuous and reliable operation of our information technology systems, including the impact of cyber security attacks or other cyber-related events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this report with the understanding that our actual future results, performance and achievements may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this report. Except for our ongoing obligations to disclose material information under the Federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements. As you read this report, you should pay particular attention to the *Risk Factors* included in our Annual Report on Form 10-K.

OVERVIEW

The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes.

The Company

Aqua America, Inc., a Pennsylvania corporation, is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost three million people in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 53% of our operating revenues and approximately 70% of our net income for 2014. As of December 31, 2014, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania's service territory is located in the suburban areas in counties north and west of the City of Philadelphia and in 26 other counties in Pennsylvania. Our other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company's non-regulated subsidiary, Aqua Resources, Inc.: provides liquid waste hauling and disposal; water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our utility companies' service territories; offers, through a third party, water and sewer line repair service and protection solutions to households; inspects, cleans and repairs storm and sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other non-regulated water and

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

wastewater services. Lastly, the Company's non-regulated subsidiary, Aqua Infrastructure, LLC, provides non-utility raw water supply services for firms, in the natural gas drilling industry.

Aqua America, which prior to its name change in 2004 was known as Philadelphia Suburban Corporation, was formed in 1968 as a holding company for its primary subsidiary, Aqua Pennsylvania, formerly known as Philadelphia Suburban Water Company. In the early 1990s, we embarked on a growth through acquisition strategy focused on water and wastewater operations. Our most significant transactions to date have been the merger with Consumers Water Company in 1999, the acquisition of the regulated water and wastewater operations of AquaSource, Inc. in 2003, the acquisition of Heater Utilities, Inc. in 2004, and the acquisition of American Water Works Company, Inc.'s regulated water and wastewater operations in Ohio in 2012. Since the early 1990s, our business strategy has been primarily directed toward the regulated water and wastewater utility industry, where we have more than quadrupled the number of regulated customers we serve, and have extended our regulated utility operations from southeastern Pennsylvania to include our current operations in seven other states.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. In addition, as a result of this transaction, Aqua Indiana will expand its sewer customer base starting in 2015 by accepting new wastewater flows from the City of Fort Wayne. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

Beginning in 2010, and substantially completed in 2013, we pursued a portfolio rationalization strategy to focus our operations in areas where we have critical mass and economic growth potential, and to divest operations where limited customer growth opportunities exist, or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable. In 2014, we sold our non-regulated wastewater treatment facility in Georgia; in 2013, we sold our utility operations in Florida; in 2012, we sold our utility operations in New York and Maine; in 2011, we sold our utility operations in Missouri; and in 2010, we sold our utility operations in South Carolina. In connection with the sale of our New York and Missouri utility operations to American Water, we acquired from American Water additional utility systems (and customers) in Ohio and Texas, two of the larger states in Aqua America's portfolio.

The operating results, cash flows, and financial position of the Company's water utility systems in Fort Wayne, Indiana and Georgia, Florida, New York, and Maine subsidiaries have been presented in the Company's consolidated financial statements as discontinued operations.

In 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in Pennsylvania. The operation of the private pipeline system commenced in the second quarter of 2012 and serves the raw water needs of firms in the natural gas drilling industry.

Industry Mission

The mission of the investor-owned water utility industry is to provide quality and reliable water service at reasonable rates to customers, while earning a fair return for shareholders. A number of challenges face the industry, including:

- strict environmental, health and safety standards;
- aging utility infrastructure and the need for substantial capital investment;
- economic regulation by state, and/or, in some cases, local government;
- declining consumption per customer as a result of conservation;
- lawsuits and the need for insurance; and
- the impact of weather and sporadic drought conditions on water sales demand.

Economic Regulation

Most of our water and wastewater utility operations are subject to regulation by their respective state utility commissions, which have broad administrative power and authority to regulate billing rates, determine franchise areas and conditions of service, approve acquisitions, and authorize the issuance of securities. The utility commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, and loans and other financings. The policies of the utility commissions often differ from state to state, and may

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

change over time. A small number of our operations are subject to rate regulation by county or city government. Over time, the regulatory party in a particular state may change, as was the case for our Texas operations where, in 2014, economic regulation changed from the Texas Commission on Environmental Quality to the Texas Public Utility Commission. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. A consideration in evaluating which states to focus our growth and investment strategy is whether a state provides for consolidated rates, a surcharge for replacing and rehabilitating infrastructure systems, and other regulatory policies that promote infrastructure investment and efficiency in processing rate cases.

Rate Case Management Capability – We strive to achieve the industry's mission by effective planning, efficient investments, and productive use of our resources. We maintain a rate case management capability to pursue timely and adequate returns on the capital investments that we make in improving our distribution system, treatment plants, information technology systems, and other infrastructure. This capital investment represents our assets used and useful in providing utility service, and is commonly referred to as rate base. Timely, adequate rate relief is important to our continued profitability and in providing a fair return to our shareholders, and thus providing access to capital markets to help fund these investments. Accordingly, the objective of our rate case management strategy is to provide that the rates of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations), capital, and taxes. In pursuing our rate case strategy, we consider the amount of net utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in our capital structure and changes in operating and other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state utility commissions or local regulatory authorities. In general, as a regulated enterprise, our water and wastewater rates are established to provide full recovery of utility operating costs, taxes, interest on debt used to finance capital investments and a return on equity used to finance capital investments. Our ability to recover our expenses in a timely manner and earn a return on equity employed in the business helps determine the profitability of the Company.

Our water and wastewater operations are composed of 53 rate divisions, each of which requires a separate rate filing for the evaluation of the cost of service and recovery of investments in connection with the establishment of tariff rates for that rate division. When feasible and beneficial to our utility customers, we have sought approval from the applicable state utility commission to consolidate rate divisions to achieve a more even distribution of costs over a larger customer base. All of the eight states in which we operate currently permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state.

Revenue Surcharges – Six states in which we operate water utilities, and five states in which we operate wastewater utilities, permit us to add a surcharge to water or wastewater bills to offset the additional depreciation and capital costs associated with capital expenditures related to replacing and rehabilitating infrastructure systems. In all other states, water and wastewater utilities absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in rates is known as regulatory lag. This surcharge is intended to substantially reduce regulatory lag, which often acts as a disincentive to water and wastewater utilities to rehabilitate their infrastructure. In addition, some states permit our subsidiaries to use a surcharge or credit on their bills to reflect allowable changes in costs, such as changes in state tax rates, other taxes and purchased water costs, until such time as the new costs are fully incorporated in base rates.

Effects of Inflation – Recovery of the effects of inflation through higher water and wastewater rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. On occasion, our regulated utility companies may enter into rate settlement agreements, which require us to wait for a period of time to file the next base rate increase request. These agreements may result in regulatory lag whereby inflationary increases in expenses may not yet be reflected in rates, or a gap may exist between when a capital project is completed and the start of its recovery in rates. Even during periods of moderate inflation, as has been experienced in 2014, 2013, and 2012, the effects of inflation can have a negative impact on our operating results.

Growth-Through-Acquisition Strategy

Part of our strategy to meet the industry challenges is to actively explore opportunities to expand our utility operations through acquisitions of water and wastewater utilities either in areas adjacent to our existing service areas or in new service areas, and to explore acquiring non-regulated businesses that are complementary to our regulated water and wastewater operations. To complement our growth strategy, we routinely evaluate the operating performance of our individual utility systems, and in instances where limited economic growth opportunities exist or where we are unable to achieve favorable operating results or a return on equity that we consider acceptable, we will seek to sell the utility system and reinvest the

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(In thousands of dollars, except per share amounts)

proceeds in other utility systems. Consistent with this strategy, we are focusing our acquisitions and resources in states where we have critical mass of operations in an effort to achieve economies of scale and increased efficiency. Our growth-through-acquisition strategy allows us to operate more efficiently by sharing operating expenses over more utility customers and provides new locations for possible future growth. Additionally, we consider opportunities to expand our utility operations by acquiring utilities that may be in a new state if they provide promising economic growth opportunities and a return on equity that we consider acceptable. The ability to successfully execute this strategy and meet the industry challenges is largely due to our financial position and our qualified and trained workforce, which we strive to retain by treating employees fairly and providing our employees with development and growth opportunities.

During 2014, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 12,120 new customers. During 2013, we completed 15 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represents 12,341 new customers. In May 2012, we completed our acquisition of American Water's water and wastewater operations in Ohio serving approximately 59,000 customers. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions and other growth ventures, which along with the organic growth in our existing system represents 11,070 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In 2014, 2013, and 2012, consistent with our strategy to evaluate future growth opportunities or the financial performance of our individual utility systems, we divested our operations in the following states:

- our wastewater treatment facility in Georgia in March 2014;
- our water and wastewater utility systems in Florida in separate transactions in March, April, and December of 2013;
- our water and wastewater utility systems in Maine in January 2012; and
- our water and wastewater utility systems in New York in May 2012.

In addition, in December 2014, we sold our water utility systems in Fort Wayne, Indiana.

In related transactions, with respect to the sale of our New York operations to American Water, we acquired additional utility systems (and additional customers) in Ohio, which resulted in a net increase in customers of approximately 8,000. In addition to the dispositions mentioned above, we sold the following utility systems: in 2013 we sold three utility systems representing 1,763 customers and in 2012 we sold two utility systems representing 1,139 customers.

We believe that utility acquisitions, organic growth, and expansion of our non-regulated business will continue to be the primary sources of customer growth for us. With approximately 53,000 community water systems in the U.S., 82% of which serve less than 3,300 customers, the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric, water and wastewater). In the states where we operate regulated utilities, we believe there are approximately 14,000 community water systems of widely-varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of wastewater treatment facilities (which includes both government-owned and privately-owned facilities) in 2008, there are approximately 15,000 such facilities in the nation serving approximately 74% of the U.S. population. The remaining population represents individual homeowners with their own treatment facilities; for example, community on-lot disposal systems and septic tank systems. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 4,500 wastewater facilities in operation in the states where we operate regulated utilities.

Because of the fragmented nature of the water and wastewater utility industries, we believe that there are many potential water and wastewater system acquisition candidates throughout the United States. We believe the factors driving the consolidation of these systems are:

- the benefits of economies of scale;
- the increasing cost and complexity of environmental regulations;
- the need for substantial capital investment;
- the need for technological and managerial expertise;

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- the desire to improve water quality and service;
- limited access to cost-effective financing;
- the monetizing of public assets to support, in some cases, the declining financial condition of municipalities; and
- the use of system sale proceeds by a municipality to accomplish other public purposes.

We are actively exploring opportunities to expand our water and wastewater utility operations through regulated acquisitions or otherwise, including the management of publicly-owned facilities in a public-private partnership. We intend to continue to pursue acquisitions of government-owned and privately-owned water and wastewater systems that provide services in areas near our existing service territories or in new service areas. It is our intention to focus on growth opportunities in states where we have critical mass, which allows us to improve economies of scale through spreading our fixed costs over more customers – this cost efficiency should enable us to lessen the size of future rate increases. Periodically, we consider opportunities for the acquisition of non-regulated water and wastewater service businesses. We are also seeking other potential business opportunities, including partnering with public and private utilities to invest in water and wastewater infrastructure improvements, growing our non-regulated subsidiary, Aqua Resources, by acquiring businesses that provide water and wastewater management services, and growth opportunities provided by meeting the raw water needs of the natural gas drilling industry.

Sendout

Sendout represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring, summer, and early fall when discretionary and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues are realized in the second and third quarters. In general during this period, an extended period of hot and dry weather increases water consumption, while above-average rainfall and cool weather decreases water consumption. Conservation efforts, construction codes that require the use of low-flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions can reduce water consumption. We believe an increase in conservation awareness by our customers, including the increased use of more efficient plumbing fixtures and appliances, may continue to result in a long-term structural trend of declining water usage per customer. These gradual long-term changes are normally taken into account by the utility commissions in setting rates, whereas significant short-term changes in water usage, resulting from drought warnings, water use restrictions, or extreme weather conditions, may not be fully reflected in the rates we charge between rate proceedings.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions, regardless of our ability to meet unrestricted customer water demands. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because discretionary and recreational use of water is highest during the summer months, particularly in our northern service territories. At other times of the year, warnings and restrictions generally have less of an effect on water consumption.

The geographic diversity of our utility customer base reduces the effect on Aqua America of our exposure to extreme or unusual weather conditions in any one area of our service territory. During the year ended December 31, 2014, our operating revenues were derived principally from the following states: approximately 53% in Pennsylvania, 12% in Ohio, 9% in Texas, 6% in Illinois, and 6% in North Carolina.

Performance Measures Considered by Management

We consider the following financial measures (and the period to period changes in these financial measures) to be the fundamental basis by which we evaluate our operating results:

- earnings per share,
- operating revenues,
- income from continuing operations,
- net income attributable to common shareholders, and
- the dividend rate on common stock.

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In addition, we consider other key measures in evaluating our utility business performance within our Regulated segment:

- our number of utility customers;
- the ratio of operations and maintenance expense compared to operating revenues (this percentage is termed "operating expense ratio");
- return on revenues (income from continuing operations divided by operating revenues);
- return on equity (net income attributable to common shareholders divided by stockholders' equity); and
- the ratio of capital expenditures to depreciation expense.

We also review the measure of earnings before interest, taxes, and depreciation ("EBITD") and the measure of earnings before income taxes as compared to our operating budget. We review these measurements regularly and compare them to historical periods, to our operating budget as approved by our Board of Directors, and to other publicly-traded water utilities.

Our operating expense ratio is one measure that we use to evaluate our operating efficiency and management effectiveness of our regulated operations. Our operating expense ratio is affected by a number of factors, including the following:

- **Regulatory lag** – Our rate filings are designed to provide for the recovery of increases in costs of operations (primarily labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claim costs, and costs to comply with environmental regulations), capital, and taxes. The revenue portion of the operating expense ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The operating expense ratio is further influenced by regulatory lag (increases in operations and maintenance expenses not yet recovered in rates or a gap between the time that a capital project is completed and the start of its cost recovery in rates). The operating expense ratio is also influenced by decreases in operating revenues without a commensurate decrease in operations and maintenance expense, such as changes in customer water consumption as impacted by adverse weather conditions, conservation trends, or as a result of utility rates incorporating the effects of income tax benefits derived from deducting qualifying utility asset improvements for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and consequently forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the operating expense ratio, as a result of regulatory lag since our rate cases may not be filed timely and are not retroactive.
- **Acquisitions** – In general, acquisitions of smaller undercapitalized utility systems in some areas may initially increase our operating expense ratio if the operating revenues generated by these operations are accompanied by a higher ratio of operations and maintenance expenses as compared to other operational areas of the company that are more densely populated and have integrated operations. In these cases, the acquired operations are characterized as having relatively higher operating costs to fixed capital costs, in contrast to the majority of our operations, which generally consist of larger, interconnected systems, with higher fixed capital costs (utility plant investment) and lower operating costs per customer. In addition, we operate non-regulated subsidiary companies, Aqua Resources and Aqua Infrastructure. The cost-structure of these non-regulated companies differs from our utility companies in that, although they may generate free cash flow, these companies have a much higher ratio of operations and maintenance expenses to operating revenues and a lower capital investment and, consequently, a lower ratio of fixed capital costs versus operating revenues in contrast to our regulated operations. As a result, the operating expense ratio is not comparable between the businesses. These non-regulated subsidiary companies are not a component of our Regulated segment.

We continue to evaluate initiatives to help control operating costs and improve efficiencies.

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(In thousands of dollars, except per share amounts)

Consolidated Selected Financial and Operating Statistics

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2014	2013 (1)	2012 (2)	2011 (3)	2010
Utility customers:					
Residential water	779,665	771,660	766,121	711,664	708,040
Commercial water	39,614	39,237	38,805	34,806	34,379
Industrial water	1,357	1,368	1,373	1,212	1,225
Other water	17,412	17,230	16,643	15,676	15,290
Wastewater	102,071	98,705	95,044	84,978	86,108
Total utility customers	940,119	928,200	917,986	848,336	845,042
Operating revenues:					
Residential water	\$ 458,627	\$ 457,404	\$ 441,240	\$ 403,311	\$ 386,899
Commercial water	122,795	121,178	117,559	105,461	99,272
Industrial water	27,369	25,263	24,822	21,407	20,561
Other water	60,860	57,446	70,693	64,769	62,635
Wastewater	76,472	73,062	68,225	62,780	62,156
Other utility	9,934	10,174	10,416	10,585	10,871
Regulated segment total	756,057	744,527	732,955	668,313	642,394
Other and eliminations	23,846	17,366	17,730	12,364	11,418
Consolidated	\$ 779,903	\$ 761,893	\$ 750,685	\$ 680,677	\$ 653,812
Operations and maintenance expense	\$ 288,556	\$ 283,561	\$ 270,042	\$ 255,017	\$ 249,251
Income from continuing operations	\$ 213,884	\$ 202,871	\$ 181,837	\$ 139,675	\$ 114,409
Net income attributable to common shareholders	\$ 233,239	\$ 221,300	\$ 196,563	\$ 143,069	\$ 123,975
Capital expenditures	\$ 328,605	\$ 307,908	\$ 347,098	\$ 324,360	\$ 306,216
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	37.0%	37.2%	36.0%	37.5%	38.1%
Depreciation and amortization	16.2%	16.3%	15.5%	15.8%	17.0%
Taxes other than income taxes	6.5%	6.9%	6.2%	6.0%	6.1%
Interest expense, net	9.8%	10.1%	10.4%	11.4%	11.8%
Income from continuing operations	27.4%	26.6%	24.2%	20.5%	17.5%
Return on Aqua America stockholders' equity	14.1%	14.4%	14.2%	11.4%	10.6%
Ratio of capital expenditures to depreciation expense	2.7	2.6	3.1	3.2	3.1
Effective tax rate (4)	10.5%	9.5%	26.4%	32.6%	39.1%

- (1) Net income attributable to common shareholders includes the gain of \$615 (\$1,025 pre-tax) realized on the sale of a utility system. The gain is reported in the 2013 consolidated statement of net income as a reduction to operations and maintenance expense.
- (2) 2012 utility customers were impacted by the addition of 65,577 utility customers associated with utility systems acquired.
- (3) Net income attributable to common shareholders includes the gain of \$3,035 (\$5,058 pre-tax) realized on the sale of utility systems. The gain is reported in the 2011 consolidated statement of net income as a reduction to operations and maintenance expense.
- (4) See Results of Operations – *Income Taxes* for a discussion of the effective tax rate change for 2014, 2013, and 2012.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

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RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 17.2% and our net income has grown at an annual compound rate of approximately 17.5% during the five-year period ended December 31, 2014. During the past five years, operating revenues grew at a compound rate of 5.2% and total expenses, exclusive of income taxes, grew at a compound rate of 4.0%. In addition, as a result of the implementation, in 2012, of an income tax accounting change that provides for a reduction in current income taxes, the Company's provision for income taxes decreased by \$48,302 or 65.7% during the five-year period ended December 31, 2014. Refer to *Note 7 – Income Taxes* for information regarding this change to allow expensing, for tax purposes, of qualifying utility asset improvement costs.

Operating Segments

We have identified ten operating segments and we have one reportable segment based on the following:

- Eight segments are composed of our water and wastewater regulated utility operations in the eight states where we provide these services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution and/or wastewater collection methods, and the nature of the regulatory environment. Our single reportable segment is named the Regulated segment.
- Two segments are not quantitatively significant to be reportable and are composed of Aqua Resources and Aqua Infrastructure. These segments are included as a component of "Other," in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

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Unless specifically noted, the following discussion and analysis provides information on our consolidated results of continuing operations. The following table provides the Regulated segment and consolidated information for the years ended December 31, 2014, 2013, and 2012:

	2014			2013		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 756,057	\$ 23,846	\$ 779,903	\$ 744,527	\$ 17,366	\$ 761,893
Operations and maintenance expense	274,754	13,802	288,556	269,804	13,757	283,561
Taxes other than income taxes	48,218	2,235	50,453	50,523	2,162	52,685
Earnings before interest, taxes, depreciation and amortization	<u>\$ 433,085</u>	<u>\$ 7,809</u>	440,894	<u>\$ 424,200</u>	<u>\$ 1,447</u>	425,647
Depreciation and amortization			126,535			123,985
Operating income			314,359			301,662
Interest expense, net of AFUDC			71,263			75,041
Loss (gain) on sale of other assets			4			(148)
Equity loss in joint venture			3,989			2,665
Provision for income taxes			25,219			21,233
Income from continuing operations			213,884			202,871
Income from discontinued operations, net of income taxes of \$12,800 and \$9,882, respectively			19,355			18,429
Net income			<u>\$ 233,239</u>			<u>\$ 221,300</u>

	2012		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 732,955	\$ 17,730	\$ 750,685
Operations and maintenance expense	256,902	13,140	270,042
Taxes other than income taxes	44,902	1,955	46,857
Earnings before interest, taxes, depreciation and amortization	<u>\$ 431,151</u>	<u>\$ 2,635</u>	433,786
Depreciation and amortization			116,180
Operating income			317,606
Interest expense, net of AFUDC			73,615
Gain on sale of other assets			(1,090)
Equity earnings in joint venture			(1,976)
Provision for income taxes			65,220
Income from continuing operations			181,837
Income from discontinued operations, net of income taxes of \$9,678			14,726
Net income			<u>\$ 196,563</u>

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Consolidated Results

Operating Revenues – Operating revenues totaled \$779,903 in 2014, \$761,893 in 2013, and \$750,685 in 2012. The growth in revenues over the past three years is a result of increases in water and wastewater rates and in our customer base. Rate increases implemented during the past three years have provided additional operating revenues of \$5,250 in 2014, \$25,676 in 2013, and \$39,793 in 2012. The decreasing trend in operating revenues from rate increases is primarily due to Aqua Pennsylvania not filing for a water base rate case or infrastructure rehabilitation surcharge since 2012 as a result of the 2012 rate case settlement discussed in the paragraph below. Negatively impacting our revenue growth in 2013 was a decrease in customer water consumption and a decrease in surcharges for replacing and rehabilitating infrastructure systems of \$12,725 primarily in Pennsylvania. The decrease in customer water consumption in 2013 is largely due to unfavorable weather conditions in many of our service territories during the second and third quarters of 2013 and what we believe is an increase in water conservation awareness by our customers. The number of customers increased at an annual compound rate of 3.4% over the past three years due to acquisitions and organic growth, adjusted to exclude customers associated with utility system dispositions. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of \$2,732 in 2014, \$16,200 in 2013, and \$28,296 in 2012, with the largest contribution being our acquisition in Ohio in 2012.

On June 7, 2012, the Pennsylvania Public Utility Commission granted Aqua Pennsylvania a water rate increase designed to increase water rates by \$16,700 on an annual basis. The rates in effect at the time of the filing included \$27,449 in surcharges for replacing and rehabilitating infrastructure systems or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase, and the infrastructure rehabilitation surcharge was reset to zero. In addition, the rate case settlement provided for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits should Aqua Pennsylvania change its tax accounting method to permit the expensing of qualifying utility asset improvement costs that have historically been capitalized and depreciated for book and tax purposes. In December 2012, Aqua Pennsylvania implemented this change which resulted in the net recognition of 2012 income tax benefits of \$33,565, which reduced the Company's current income tax expense and increased the Company's net income. In 2013, the Company recorded \$60,555 of income tax benefits, which includes \$14,908 of income tax benefits recognized based on final filing positions used in the 2012 tax return. In 2014, the Company recorded \$69,048 of income tax benefits. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10th of these expenditures, or \$16,734 annually, which reduced income tax expense and increased the Company's net income. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met. Also, as a result of this change, the fourth quarter 2012 infrastructure rehabilitation surcharge of 2.82% for Aqua Pennsylvania's water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania did not file a water base rate case or for an infrastructure rehabilitation surcharge in 2014 or 2013.

Our operating subsidiaries, excluding the 2012 Pennsylvania water rate award, discussed above, received rate increases representing estimated annualized revenues of \$9,886 in 2014 resulting from twelve rate decisions, \$9,431 in 2013 resulting from six rate decisions, and \$17,923 in 2012 resulting from nine rate decisions. Revenues from these increases realized in the year of grant were \$5,375 in 2014, \$8,169 in 2013, and \$13,754 in 2012. As of December 31, 2014, our operating subsidiaries currently have filed three rate requests, which are being reviewed by the state utility commissions, proposing an aggregate increase of \$3,879 in annual revenues. During 2015, we intend to file four additional rate requests proposing an aggregate of approximately \$4,871 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of a surcharge for replacing and rehabilitating infrastructure systems. Refer to Note 16 – *Water and Wastewater Rates* for further information regarding our filing for this surcharge in North Carolina. The rate increases under this surcharge typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. This surcharge is capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. These surcharges provided revenues of \$4,598 in 2014, \$3,205 in 2013, and \$15,911 in 2012. The decrease for 2014 and 2013, as compared to 2012, resulted primarily from the January 1, 2013 suspension of Aqua Pennsylvania's infrastructure rehabilitation surcharge as a result of the implementation of the income tax accounting change discussed above.

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Our Regulated segment also includes operating revenues of \$9,934 in 2014, \$10,174 in 2013, and \$10,416 in 2012 associated with contract operations that are integrated into the regulated utility business and operations. These amounts vary over time according to the level of activity associated with the utility contract operations.

In addition to the Regulated segment operating revenues, we have non-regulated revenues that were associated with Aqua Resources and Aqua Infrastructure of \$24,189 in 2014, \$17,712 in 2013, and \$18,247 in 2012. The growth in our non-regulated revenues in 2014 is principally due to additional revenues of \$3,511 associated with non-regulated water and wastewater services provided by Aqua Resources, and acquisitions, which have provided additional revenues of \$2,726.

Operations and Maintenance Expenses – Operations and maintenance expenses totaled \$288,556 in 2014, \$283,561 in 2013, and \$270,042 in 2012. Most elements of operating costs are subject to the effects of inflation and changes in the number of customers served. Several elements are subject to the effects of changes in water consumption, weather and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor and employee benefits, electricity, chemicals, transportation, maintenance expenses, insurance and claims costs, and costs to comply with environmental regulations. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and price changes. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture, resulting in additional costs to repair the affected main.

Operations and maintenance expenses increased in 2014 as compared to 2013 by \$4,995 or 1.8%, primarily due to: additional operating costs associated with acquired utility systems and other growth ventures of \$3,871; additional operating expenses of \$2,683 primarily associated with non-regulated water and sewer line repairs and construction services; additional operating costs of \$1,861 associated with severe winter weather conditions experienced in many of our service territories; an increase in bad debt expense of \$1,131; and the effect of the June 2013 gain on sale of a utility system of \$1,025; partially offset by a reduction in post-retirement benefits expense of \$3,010 and the recognition of a regulatory asset in 2014 of \$1,575. The gain on sale of a utility system is reported in the consolidated statement of net income as a component of operations and maintenance expense.

Operations and maintenance expenses increased in 2013 as compared to 2012 by \$13,519 or 5.0%, primarily due to: increases in operating costs associated with acquired utility systems and other growth ventures of \$7,386; the effect of the recognition in 2012 of a regulatory asset resulting from a completed rate case which when compared to 2013 resulted in an increase to operations and maintenance expense by \$3,356; an increase in post-retirement benefits expense of \$1,175; and normal increases in other operating costs; partially offset by a decrease in water production costs of \$2,512 attributed to decreased water consumption in 2013 and a gain on sale of a utility system recognized in 2013 of \$1,025. The gain on sale of utility system is reported in the consolidated statement of net income as a component of operations and maintenance expense.

Depreciation and Amortization Expenses – Depreciation expense was \$123,054 in 2014, \$118,414 in 2013, and \$110,927 in 2012, and has increased principally as a result of the significant capital expenditures made to expand and improve our utility facilities, and our acquisitions of new utility systems. The increase for 2014 was partially offset by the implementation of lower depreciation rates for our Texas operating subsidiary.

Amortization expense was \$3,481 in 2014, \$5,571 in 2013, and \$5,253 in 2012, and decreased in 2014 primarily due to the completion of the recovery of our costs associated with various rate filings and an increase in the amortization period for expenses associated with providing raw water supply services for firms in the natural gas drilling industry. 2013 amortization expense increased primarily due to the amortization of costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes – Taxes other than income taxes totaled \$50,453 in 2014, \$52,685 in 2013, and \$46,857 in 2012. The decrease in 2014 is primarily due to a decrease in property taxes of \$1,208 associated primarily with a reduction in the property tax rate assessed for a subsidiary recognized in 2014, and a decrease in capital stock taxes of \$812 primarily associated with a decrease in capital stock taxes assessed for Aqua Pennsylvania. The increase in 2013 is primarily due to an increase in property taxes of \$4,179 associated primarily with our Ohio acquisition, an increase in gross receipt, excise and franchise taxes of \$1,800 due primarily to our Ohio acquisition, as well as the effect of a favorable adjustment recorded in 2012 related to gross receipts, excise and franchise taxes for one of our operating subsidiaries of \$824 which had the effect of increasing 2013's taxes other than income taxes, partially offset by a decrease in capital stock taxes of \$1,069 associated with a decrease in capital stock taxes assessed for Aqua Pennsylvania.

Interest Expense, net – Net interest expense was \$76,397 in 2014, \$77,316 in 2013, and \$77,757 in 2012. Interest income of \$316 in 2014, \$438 in 2013, and \$372 in 2012 was netted against interest expense. Net interest expense decreased in 2014 and

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2013 primarily due to a decline in average short-term borrowings of \$16,186 and \$43,666, respectively, partially offset by an increase in average outstanding fixed rate long-term debt of \$13,276 and \$40,926, respectively, as well as a decline in long and short term interest rates. Interest income decreased in 2014 due to lower investment rates. The weighted average cost of fixed rate long-term debt was 4.85% at December 31, 2014, 5.00% at December 31, 2013, and 5.06% at December 31, 2012. The weighted average cost of fixed and variable rate long-term debt was 4.65% at December 31, 2014, 5.00% at December 31, 2013, and 4.81% at December 31, 2012.

Allowance for Funds Used During Construction – The allowance for funds used during construction (“AFUDC”) was \$5,134 in 2014, \$2,275 in 2013, and \$4,142 in 2012, and has varied over the years as a result of changes in the average balance of utility plant construction work in progress, to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, changes in the balance of short-debt, changes in the amount of AFUDC related to equity, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects. The increase in 2014 is primarily due to an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity. The decrease in 2013 is due to a decrease of \$43,561 in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects.

Loss (Gain) on Sale of Other Assets – Loss (gain) on sale of other assets totaled \$4 in 2014, \$(148) in 2013, and \$(1,090) in 2012, and consists of the sales of properties and marketable securities.

Equity Loss (Earnings) in Joint Venture – Equity loss (earnings) in joint venture totaled \$3,989 in 2014, \$2,665 in 2013, and \$(1,976) in 2012. The decrease in 2014 and 2013 reflects a temporary decline in water sales to our customers in the natural gas drilling industry.

Income Taxes – Our effective income tax rate was 10.5% in 2014, 9.5% in 2013, and 26.4% in 2012. The decrease in the effective tax rate for 2014 and 2013 was primarily due to the 2012 income tax accounting change for qualifying utility asset improvements at Aqua Pennsylvania which resulted in a \$69,048 and \$60,555 net reduction to the Company's 2014 and 2013 Federal and state income tax expense. As of December 31, 2014, the Company has an unrecognized tax benefit related to the Company's change in its tax accounting method for qualifying utility asset improvement costs, of which \$12,567 of these tax benefits would further reduce the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position in the period this information is determined.

Summary –

	Years ended December 31,		
	2014	2013	2012
Operating income	\$ 314,359	\$ 301,662	\$ 317,606
Income from continuing operations	\$ 213,884	\$ 202,871	\$ 181,837
Income from discontinued operations	19,355	18,429	14,726
Net income attributable to common shareholders	\$ 233,239	\$ 221,300	\$ 196,563
Diluted income from continuing operations per share	\$ 1.20	\$ 1.15	\$ 1.04
Diluted income from discontinued operations per share	0.11	0.10	0.08
Diluted net income per share	1.31	1.25	1.12

The changes in the per share income from continuing operations in 2014 and 2013 over the previous years were due to the aforementioned changes and 2013 was impacted by a 1.1% increase in the average number of common shares outstanding during 2013. The increase in the number of shares outstanding in 2013 is primarily a result of the additional shares sold or issued through our equity compensation plan and dividend reinvestment plan.

Income from discontinued operations for 2014 increased by \$926 or \$0.01 per diluted share, in comparison to 2013 primarily as a result of the net gain on sale of \$17,611 recognized on the sale of our water utility systems in Fort Wayne, Indiana in 2014, offset by the effect of the prior year recognition of the net gain on sale of \$13,766 for our Florida operations. Income from discontinued operations for 2013 increased by \$3,703 or \$0.02 per diluted share, in comparison to 2012 primarily as a result of the net gain on sale recognized on the sales of our Florida operations in 2013, net of income taxes, of \$13,766 and the effects of the prior year recognition of charges incurred from the disposal of our New York subsidiary of \$2,090, and an asset

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impairment recognized in the prior year, net of tax, of \$852, offset by the effect of the prior year recognition of the gain on sale of our Maine operating subsidiary net of income taxes of \$10,821.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments, as well as a continuation of income tax benefits related to eligible utility asset improvement costs are important to the future realization of improved profitability.

Fourth Quarter Results – The following table provides our fourth quarter results:

	Three Months Ended December 31,	
	2014	2013
Operating revenues	\$ 191,389	\$ 187,078
Operations and maintenance	74,121	73,724
Depreciation	31,365	30,078
Amortization	796	1,641
Taxes other than income taxes	12,510	12,801
	<u>118,792</u>	<u>118,244</u>
Operating income	72,597	68,834
Interest expense, net	19,004	19,482
Allowance for funds used during construction	(1,835)	(806)
Gain on sale of other assets	(129)	(27)
Equity loss in joint venture	1,316	933
Income before income taxes	54,241	49,252
Provision for income taxes	5,287	2,998
Income from continuing operations	48,954	46,254
Income from discontinued operations, net of income taxes of \$11,797 and \$5,732	17,861	11,278
Net income	\$ 66,815	\$ 57,532

The increase in operating revenues of \$4,311 was primarily due to an increase in water and wastewater rates of \$2,945 from water and wastewater rates implemented in various operating subsidiaries and additional revenues of \$2,431 associated with a larger customer base due to acquisitions. The increase in operations and maintenance expense of \$397 is due primarily to additional operating costs associated with acquisitions of \$2,045, and normal increases in other operating expenses, partially offset by a decrease in insurance and claims expenses of \$1,089 and a decrease in post-retirement benefits expense of \$401. Depreciation expense increased by \$1,287 primarily due to the utility plant placed in service since December 31, 2013. Amortization expense decreased by \$845 primarily due to the completion of the recovery of our costs associated with various rate filings. The decrease in other taxes of \$291 is primarily due to a decrease in gross receipts, excise and franchise tax of \$385 primarily associated with the repealing of the gross receipts tax in North Carolina, and a decrease in property taxes of \$175, partially offset by an increase in other taxes of \$215 primarily due to an increase in taxes assessed resulting from the pumping of ground water in Texas. Interest expense decreased by \$478 due to a decrease in our effective interest rate on average borrowings offset by an increase in the average outstanding debt balance. Allowance for funds used during construction increased by \$1,029 primarily due to an increase in the AFUDC rate as a result of an increase in the amount of AFUDC related to equity. Gain on sale of other assets increased by \$102 principally due to the timing of sales of land and other property. The increase in equity loss in joint venture of \$383 reflects a temporary decline in water sales to our customers in the natural gas drilling industry. The provision for income taxes increased by \$2,289 as a result of the effect of lower income tax benefits recognized in the fourth quarter of 2014 for deductions of certain qualifying infrastructure improvements for Aqua Pennsylvania. Income from discontinued operations increased by \$6,583 primarily due to the gain on sale, net of taxes, of \$17,611 for our water utility systems in Fort Wayne, Indiana, offset by the prior year effect of the gain on sale, net of taxes, of \$10,211 for our water and wastewater utility system in Sarasota, Florida.

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FINANCIAL CONDITION

Consolidated Cash Flow and Capital Expenditures

Net operating cash flows from continuing operations, dividends paid on common stock, capital expenditures used in continuing operations, including allowances for funds used during construction, and expenditures for acquiring water and wastewater systems for our continuing operations for the five years ended December 31, 2014 were as follows:

	Net Operating Cash Flows	Common Dividends	Capital Expenditures	Acquisitions
2010	\$ 242,457	\$ 80,907	\$ 306,216	\$ 8,625
2011	349,927	87,133	324,360	8,515
2012	375,823	93,423	347,098	121,248
2013	365,409	102,889	307,908	14,997
2014	364,888	112,106	328,605	14,616
	\$ 1,698,504	\$ 476,458	\$ 1,614,187	\$ 168,001

Included in capital expenditures for the five-year period are: expenditures for the rehabilitation of existing water distribution systems, new water distribution systems, modernization and replacement of existing treatment plants, and water meters. During this five-year period, we received \$27,848 of customer advances and contributions in aid of construction to finance new water mains and related facilities that are not included in the capital expenditures presented in the above table. In addition, during this period, we have made repayments of debt of \$661,340, and have refunded \$25,341 of customers' advances for construction. Common dividends increased during the past five years as a result of annual increases in the common dividends declared and paid and increases in the number of shares outstanding during the period.

Our planned 2015 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to continue at similar levels as 2014. The 2015 capital program is expected to include \$190,300 for infrastructure rehabilitation surcharge qualified projects. Our planned capital program includes spending that may qualify for this surcharge, and should these regulatory mechanisms be discontinued for any reason, which is not anticipated, we may re-evaluate the magnitude of this portion of our capital program. Beginning January 1, 2013, Aqua Pennsylvania reset its water infrastructure rehabilitation surcharge to zero resulting from the change in its tax method of accounting for qualifying utility asset improvements as described below. Although we were not eligible to use an infrastructure rehabilitation surcharge with our Aqua Pennsylvania water customers in 2014 or 2013, we were able to use the income tax savings derived from the qualifying utility asset improvements to continue to maintain a similar capital investment program as 2012. Our planned 2015 capital program in Pennsylvania is estimated to be approximately \$240,000 a portion of which is expected to be eligible as a deduction for qualifying utility asset improvements for Federal income tax purposes. Our overall 2015 capital program, along with \$58,615 of debt repayments, and \$151,377 of other contractual cash obligations, as reported in the section captioned *Contractual Obligations*, has been, or is expected to be, financed through internally-generated funds, our revolving credit facilities, and the issuance of long-term debt.

Future utility construction in the period 2016 through 2017, including recurring programs, such as the ongoing replacement or rehabilitation of water meters, water mains, water treatment plant upgrades, storage facility renovations, and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$712,000. We anticipate that less than one-half of these expenditures will require external financing. We expect to refinance \$210,995 of long-term debt during this period as they become due with new issues of long-term debt, internally-generated funds, and our revolving credit facilities. The estimates discussed above do not include any amounts for possible future acquisitions of water and wastewater systems or the financing necessary to support them.

Our primary sources of liquidity are cash flows from operations (including the allowed deferral of Federal income tax payments), borrowings under various short-term lines of credit and other credit facilities, and customer advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief, water consumption, and changes in Federal tax laws with respect to accelerated tax depreciation or deductions for utility construction projects. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term lines of credit. Over time, we partially repay or pay-down our short-term lines of credit with

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long-term debt and when necessary proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings and cash flow to enable them to secure the capital they will need to operate and to maintain satisfactory debt coverage ratios.

In December 2012, we changed our income tax method of accounting as permitted under Internal Revenue Service ("IRS") regulations for qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. This method permits the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania which provides for a reduction in current income taxes as a result of the recognition of qualifying income tax benefits resulting from the income tax accounting change. As a result of the rate order, the net 2012 income tax benefits of \$33,565 reduced the Company's current income tax expense and increased net income in the fourth quarter of 2012. In 2013, the Company recorded \$60,555 of income tax benefits, which includes \$14,908 of income tax benefits recognized based on final filing positions used in the 2012 tax return. In 2014, the Company recorded \$69,048 of income tax benefits. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10th of these expenditures or \$16,734 annually, which reduced income tax expense and increased the Company's net income. In accordance with the settlement agreement, this amortization is expected to reduce income tax expense during periods when qualifying parameters are met.

The deduction for qualifying utility asset improvements is anticipated to continue in 2015 and beyond. Our 2015 earnings will be impacted by the following factors in Aqua Pennsylvania: the deduction for qualifying utility asset improvements in 2015 is expected to decrease current income tax expense by a similar amount as 2014, and the ten year amortization of the qualifying capital expenditures made prior to 2012 is also expected to reduce current income tax expense; offset by the effect of regulatory lag. In addition, during 2013 and 2014, additional income tax benefits were recognized of \$17,736 and \$8,719, respectively, related to a change in the Company's tax method of accounting for qualifying utility system repairs in non-Pennsylvania regulated operating divisions, although the rate treatment afforded in these divisions does not result in a reduction to current income tax expense.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted on December 17, 2010 and provided for an extension of 50% bonus depreciation for qualifying capital additions through 2012 and a 100% expensing allowance for qualifying capital additions placed in service after September 8, 2010 through 2011. A substantial portion of our capital expenditures qualified for 50% bonus depreciation or the 100% expensing allowance. As a result of this act, the Company's Federal income tax payments were eliminated for tax year 2011 and our net operating cash flows were favorably impacted. In addition, we received a Federal income tax refund in the amount of \$33,600 in October 2011 relating to our 2010 tax return. In the first quarter of 2011, one of our state tax jurisdictions announced that it would recognize the 100% expensing allowance beginning after September 8, 2010 and in 2011. As a result of this guidance and the treatment afforded by that state's utility commission, which allows for a reduction in current income tax expense, the net state tax benefit reduced our state income tax expense in 2011 by \$14,800, reduced our effective income tax rate, and increased our earnings by \$0.085 per share.

Acquisitions

During the past five years, we have expended cash of \$168,001 and did not issue any shares of common stock related to the acquisition of utility systems, both water and wastewater utilities, as well as investments in supplying raw water to the natural gas drilling industry. During 2014, we completed 16 acquisitions of water and wastewater utility systems for \$10,530 in cash in seven of the states in which we operate. Further, in August 2014, we acquired a non-regulated business that specializes in the inspection, cleaning and repair of storm and sanitary sewer lines. The total purchase price consisted of \$3,010, of which a total of \$810 is contingent upon satisfying certain annual performance targets over a three-year period. Additionally, in December 2014, we acquired a non-regulated business that specializes in providing water distribution system services to prevent the contamination of potable water, including training to waterworks operators. The total purchase price consisted of \$1,800, of which \$700 was paid in the first quarter of 2015. During 2013, we completed 15 acquisitions of water and wastewater utility systems for \$14,997 in cash in four of the states in which we operate.

As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water to purchase all of the stock of the subsidiary that held American Water's regulated water and wastewater operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the

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Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of \$102,154 in cash plus specific assumed liabilities, including debt of \$14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. The Ohio acquisition was financed primarily from the proceeds from the January 1, 2012 sale of our Maine subsidiary, the May 1, 2012 sale of our New York subsidiary, and by the issuance of long-term and/or short-term debt. In addition to our Ohio acquisition, during 2012, we completed 16 acquisitions of water and wastewater utility systems for \$19,094 in cash in six of the states in which we operate.

In June 2011, the Company completed its acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of \$6,245 in cash. The Company's acquisitions in Ohio and Texas were accretive to the Company's results of operations, however, the pro forma effect of the businesses acquired are not material to the Company's results of operations. In addition to our Texas acquisition, during 2011, we completed eight acquisitions of water and wastewater utility systems for \$2,270 in cash in three of the states in which we operate. During 2010, we completed 23 acquisitions of water and wastewater utility systems in six of the states in which we operate. The 2010 acquisitions were completed for \$8,625 in cash.

We included the operating results of these acquisitions in our consolidated financial statements beginning on the respective acquisition dates.

We continue to hold acquisition discussions with several water and wastewater systems. Our typical acquisitions are expected to be financed with short-term debt with subsequent repayment from the proceeds of long-term debt, retained earnings, or equity issuances.

In September 2011, one of our subsidiaries entered into a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania. The initial 18-mile pipeline commenced operations in the second quarter of 2012. The initial pipeline system was expanded for an additional 38 miles with a permitted intake on the Susquehanna River, which extended the pipeline to additional drillers. The total cost of this pipeline was \$109,000. The joint venture has entered into water supply contracts with natural gas drilling companies and negotiations continue with other area drilling companies. As of December 31, 2014, our capital contributions since inception totaled \$53,643 in cash. This investment has been financed through the issuance of long-term debt. Our 49% investment in this joint venture is as an unconsolidated affiliate and is accounted for under the equity method of accounting. Our investment is carried at cost, including capital contributions or distributions and our equity in earnings and losses since the commencement of the system's operations. Since some practices for natural gas drilling require a large quantity of raw water in order to extract gas, we are continuing to hold exploratory discussions with other natural gas drilling companies about their needs for raw water supply.

Dispositions

We routinely review and evaluate areas of our business and operating divisions and, over time, may sell utility systems or portions of systems. In 2013, 2012, 2011, and 2010, in accordance with our strategy to focus our resources on states where we have critical mass to improve our economies of scale and expect future economic growth, we sold water and wastewater systems in the following states: Florida, New York, Maine, Missouri, and South Carolina. With respect to the sale of our systems in New York and the sale of our systems in Missouri to American Water, we acquired additional utility systems from American Water in Ohio and in Texas. Additionally, in March, 2014, we completed the sale of our wastewater treatment facility in Georgia.

In December 2014, we completed the sale of our water utility system in southwest Allen County Indiana to the City of Fort Wayne, Indiana for \$67,011, which is comprised of \$50,100 in addition to \$16,911 the city initially paid the Company towards its water and wastewater system assets in the northern part of Fort Wayne in 2008. We recognized a gain on sale of \$29,210 (\$17,611 after-tax) in the fourth quarter of 2014. In addition, as a result of this transaction, Aqua Indiana agreed to expand its sewer customer base by accepting new wastewater flows from the City beginning in 2015. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. The Company received total net proceeds from these sales of \$88,934, and recognized a gain on sale of \$21,178 (\$13,766 after-tax).

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In June 2013, the Company sold a water and wastewater utility system for net proceeds of \$3,400. The sale resulted in the recognition of a gain on sale of these assets, net of expenses, of \$1,025 (\$615 after-tax). The utility system represented approximately 0.04% of the Company's total assets.

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus specific assumed liabilities, including debt of approximately \$23,000. On May 1, 2012, the Company completed the sale for net proceeds of \$36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. The Company's New York operations served approximately 51,000 customers. The sale of our New York operations concluded our regulated operations in New York. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus specific assumed liabilities, including debt of \$17,364. On January 1, 2012, we completed the sale for net proceeds of \$36,870, and recognized a gain on sale of \$17,699 (\$10,821 after-tax). The sale of our Maine operations concluded our regulated operations in Maine. The proceeds were used to finance a portion of our acquisition of American Water's Ohio subsidiary, pay-down a portion of our short-term debt, and other general corporate purposes.

In June 2011, we sold a water and wastewater utility system for net proceeds of \$4,106. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,692 (\$1,615 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility system represented approximately 0.03% of Aqua America's total assets. In May 2011, we sold our regulated water and wastewater operations in Missouri for net proceeds of \$3,225, resulting in a small gain on sale. The sale of our utility operations in Missouri represented approximately 0.07% of Aqua America's total assets. In January 2011, we sold a water and wastewater utility system for net proceeds of \$3,118. The sale resulted in the recognition of a gain on the sale, net of expenses, of \$2,452 (\$1,471 after-tax). The utility system represented approximately 0.01% of Aqua America's total assets. The gain is reported in the consolidated statement of net income as a reduction to operations and maintenance expense.

Despite these transactions, our primary strategy continues to be to acquire additional water and wastewater systems, to maintain our existing systems where there is a strategic business benefit, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Sources of Capital

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$854,839 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2014, we have a \$200,000 long-term revolving credit facility that expires in March 2017, of which \$21,617 was designated for letter of credit usage, \$106,383 was available for borrowing and \$72,000 of borrowings were outstanding at December 31, 2014. In addition, we have short-term lines of credit of \$160,500, of which \$142,102 was available as of December 31, 2014. These short-term lines of credit are subject to renewal on an annual basis. Although we believe we will be able to renew these facilities, there is no assurance that they will be renewed, or what the terms of any such renewal will be.

Our consolidated balance sheet historically has had a negative working capital position, whereby routinely our current liabilities exceed our current assets. Management believes that internally-generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt will be adequate to provide sufficient working capital to maintain normal operations and to meet our financing requirements for at least the next twelve months.

Our loan and debt agreements require us to comply with certain financial covenants, which among other things, subject to specific exceptions, limit the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2014, we were in compliance with our debt covenants under our credit facilities. Failure to comply with our debt covenants could result in an event of default, which could result in us being required to repay or finance our borrowings before their due date, possibly limiting our future borrowings, and increasing our borrowing costs.

In February 2012, we renewed our universal shelf registration statement, which had expired in December 2011, through a filing with the Securities and Exchange Commission ("SEC") which allows for the potential future offer and sale by us, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities, and other securities specified therein at indeterminate prices. The Company's Board of Directors has authorized the

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Company to issue up to \$500,000 of our common stock, preferred stock, debt securities, and other securities specified therein under this universal shelf registration statement. No issues have been completed to date under this shelf registration statement. This registration statement expires in February 2015, and we intend to file a new three-year universal shelf registration statement.

In addition, we have a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. During the past five years, we did not issue any shares under the acquisition shelf registration. The balance remaining available for use under the acquisition shelf registration as of December 31, 2014 is 1,904,487 shares. We will determine the form and terms of any securities issued under these shelf registration statements at the time of issuance.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan") that provides a convenient and economical way to purchase shares of the Company. In August 2014, we renewed the Plan, through a filing with the SEC. Under the direct stock purchase portion of the Plan, shares are issued throughout the year. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of shares of common stock with reinvested dividends. As of the December 2014 dividend payment, holders of 11.6% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. The shares issued under the Plan are either original issue shares or shares purchased by the Company's transfer agent in the open-market. During the past five years, we have sold 2,718,738 original issue shares of common stock for net proceeds of \$47,298 through the dividend reinvestment portion of the Plan, and we used the proceeds to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes. In 2014 and 2013, 558,317 and 154,900 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company's transfer agent in the open-market for \$14,148 and \$3,693, respectively.

The Company's Board of Directors has authorized us to repurchase our common stock, from time to time, in the open market or through privately negotiated transactions. In 2014, we repurchased 560,000 shares of our common stock in the open market for \$13,280. In December 2014, the Company's Board of Directors authorized a share buyback program of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. As of December 31, 2014, 1,125,348 shares remain available for repurchase, which includes 125,348 of shares authorized for repurchase from a previous repurchase authorization. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Off-Balance Sheet Financing Arrangements

We do not engage in any off-balance sheet financing arrangements. We do not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

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(In thousands of dollars, except per share amounts)

Contractual Obligations

The following table summarizes our contractual cash obligations as of December 31, 2014:

	Payments Due By Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt	\$ 1,619,270	\$ 58,615	\$ 210,995	\$ 148,848	\$ 1,200,812
Interest on fixed-rate, long-term debt (1)	1,220,372	73,253	143,655	130,829	872,635
Operating leases (2)	21,070	1,897	2,588	1,882	14,703
Unconditional purchase obligations (3)	69,862	13,022	22,016	11,366	23,458
Other purchase obligations (4)	48,505	48,505	-	-	-
Pension plan obligation (5)	13,756	13,756	-	-	-
Other obligations (6)	19,000	944	1,945	6,225	9,886
Total	\$ 3,011,835	\$ 209,992	\$ 381,199	\$ 299,150	\$ 2,121,494

- (1) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.
- (2) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.
- (3) Represents our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. Our actual purchases may exceed the minimum required levels.
- (4) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.
- (5) Represents contributions contractually obligated to be made to pension plan.
- (6) Represents expenditures estimated to be required under legal and binding contractual obligations.

In addition to these obligations, we pay refunds on customers' advances for construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are paid, any remaining balance is transferred to contributions in aid of construction. The refund amounts are not included in the above table because the refund amounts and timing are dependent upon several variables, including new customer connections, customer consumption levels and future rate increases, which cannot be accurately estimated. Portions of these refund amounts are payable annually through 2024 and amounts not paid by the contract expiration dates become non-refundable.

In addition to the obligations disclosed in the contractual obligations table above, we have uncertain tax positions of \$25,292. Although we believe our tax positions comply with applicable law, we have made judgments as to the sustainability of each uncertain tax position based on its technical merits. Due to the uncertainty of future cash outflows, if any, associated with our uncertain tax positions, we are unable to make a reasonable estimate of the timing or amounts that may be paid. See Note 7 – *Income Taxes* for further information on our uncertain tax positions.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

The Company is routinely involved in legal matters, including both asserted and unasserted legal claims, during the ordinary course of business. See Note 9 – *Commitments and Contingencies* of the consolidated financial statements for a discussion of the Company's legal matters. It is not always possible for management to make a meaningful estimate of the potential loss or range of loss associated with such litigation. Also, unanticipated changes in circumstances and/or revisions to the assessed probability of the outcomes of legal matters could result in expenses being incurred in future periods as well as an increase in actual cash required to resolve the legal matter.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2014, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$ 58,615	\$ 35,903	\$ 103,092	\$ 54,051	\$ 94,797	\$ 1,200,812	\$ 1,547,270	\$ 1,622,424
Variable rate	-	-	72,000	-	-	-	72,000	72,000
Total	\$ 58,615	\$ 35,903	\$ 175,092	\$ 54,051	\$ 94,797	\$ 1,200,812	\$ 1,619,270	\$ 1,694,424
Weighted average interest rate*	5.21%	4.82%	2.43%	6.33%	4.93%	4.84%	4.85%	

*Weighted average interest rate of 2017 long-term debt maturity is as follows: fixed rate debt of 3.58% and variable rate debt of 0.78%.

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for marketable equity securities. As of December 31, 2014, the carrying value of these investments, which reflects market value, was \$170.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2014	2013	2012	2011	2010
Long-term debt (1)	49.4%	50.3%	53.4%	54.8%	57.0%
Aqua America stockholders' equity	50.6%	49.7%	46.6%	45.2%	43.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$72,000 at December 31, 2014, \$0 at December 31, 2013, \$100,000 at December 31, 2012, \$38,212 at December 31, 2011, and \$65,000 at December 31, 2010.

Over the past five years, the changes in the capitalization ratios primarily resulted from the issuance of common stock, the issuance of debt to finance our acquisitions and capital program, growth in net income, and the declaration of dividends. It is our goal to maintain an equity ratio adequate to support the current Standard and Poor's corporate credit rating of "A+" and the senior secured debt rating of "AA-" for Aqua Pennsylvania, our largest operating subsidiary.

Dividends on Common Stock

We have paid common dividends consecutively for 70 years. Effective August 5, 2014, our Board of Directors authorized an increase of 8.6% in the September 1, 2014 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2014, the annualized dividend rate increased to \$0.66 per share from \$0.608 per share. This is the 24th dividend increase in the past 23 years and the 16th consecutive year that we have increased our dividend in excess of five percent. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1, and December 1, subject to our earnings and financial condition, restrictions set forth in our debt instruments, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, our common dividends paid have averaged 51.9% of net income attributable to common shareholders.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgments of matters of uncertainty. Changes in the estimates or other judgments included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities, the valuation of our long-lived assets, which consist primarily of utility plant in service, regulatory assets, and goodwill, our accounting for post-retirement benefits, and our accounting for income taxes. We have discussed the selection and development of our critical accounting policies and estimates with the Audit Committee of the Board of Directors.

Revenue Recognition — Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgment and assumptions; our actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to our estimates is determined.

In some operating divisions, we commence the billing of our utility customers, under new rates, upon authorization from the respective utility commission and before the final commission rate order is issued. The revenue recognized reflects an estimate based on our judgment of the final outcome of the commission's ruling. We monitor the applicable facts and circumstances regularly, and revise the estimate as required. The revenue billed and collected prior to the final ruling is subject to refund based on the commission's final ruling.

Regulatory Assets and Liabilities — We defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water or wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

Valuation of Long-Lived Assets, Goodwill and Intangible Assets — We review our long-lived assets for impairment, including utility plant in service and investment in joint venture. We also review regulatory assets for the continued application of the Financial Accounting Standards Board's ("FASB") accounting guidance for regulated operations. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. Adjustments to the carrying value of these assets would be made in instances where their inclusion in the rate-making process is unlikely.

We test the goodwill attributable for each of our reporting units for impairment at least annually on July 31, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform a quantitative goodwill impairment test. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The assessment requires significant management judgment and estimates that are based on budgets, general strategic business plans, historical trends and other data and relevant factors. If changes in circumstances or events occur, or estimates and assumptions that were used in our impairment test change, we may be required to record an impairment charge for goodwill. Refer to Note 1 – *Summary of Significant Accounting Policies – Goodwill* for information regarding the results of our annual impairment test.

Accounting for Post-Retirement Benefits — We maintain a qualified defined benefit pension plan and plans that provide for post-retirement benefits other than pensions. Accounting for pension and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant, who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefits expense that we recognize.

Our discount rate assumption, which is used to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the projected benefit payments of the plans. A decrease in the discount rate would increase our post-retirement benefits expense and benefit obligation. After reviewing the hypothetical portfolio of bonds, we selected a discount rate of 4.20% for our pension plan and 4.17% for our other post-retirement benefit plans as of December 31, 2014, which represent a 92 and 95 basis-point decrease as compared to the discount rate selected at December 31, 2013. Our post-retirement benefits expense under these plans is determined using the discount rate as of the beginning of the year, which was 5.12% for 2014, and will be 4.20% for our pension plan and 4.17% for our other post-retirement benefit plans for 2015. In 2012, our post-retirement benefits were re-measured as of May 1, 2012 to reflect the post-retirement benefits assumed in our Ohio acquisition. The post-retirement benefits expense for 2012 was determined using a 5.00% discount rate for the period January 1, 2012 – April 30, 2012 and 4.70% for the period May 1, 2012 – December 31, 2012.

Our expected return on plan assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. The Company's market-related value of plan assets is equal to the fair value of the plans' assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets, which is a component of post-retirement benefits expense. The allocation of our plans' assets impacts our expected return on plan assets. The expected return on plan assets is based on a targeted allocation of 25% to 75% domestic equities, 0% to 10% international equities, 25% to 50% fixed income, 0% to 5% alternative investments, and 0% to 20% cash and cash equivalents. Our post-retirement benefits expense increases as the expected return on plan assets decreases. We believe that our actual long-term asset allocations on average will approximate our targeted allocations. Our targeted allocations are driven by our investment strategy to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. For 2014, we used a 7.50% expected return on plan assets assumption which will remain unchanged for 2015.

In October 2014, the Society of Actuaries issued an updated set of mortality tables and a mortality improvement scale. The updated mortality tables extend the assumed life expectancy of participants in defined benefit plans, and the updated mortality improvement scale projects how mortality rates will improve into the future based on anticipated medical innovations and a reduction in unhealthy behaviors. We considered the new mortality data at the December 31, 2014 measurement of our post-retirement benefit obligations in relation to our plans' participant population experience and adopted a new mortality table and a new mortality improvement scale. Because mortality is a key assumption in developing actuarial estimates, the impact of adopting the new mortality data is, an increase in our post-retirement benefit obligation as of December 31, 2014 of \$14,400 and an increase in our 2015 net periodic benefit costs of \$2,500, of which approximately \$900 is expected to have an impact on our 2015 post-retirement benefits expense, due to the regulatory treatment of our net periodic benefit costs.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and our funding policy, during 2015 our pension contribution is expected to approximate \$13,756. Future years' contributions will be subject to economic conditions, plan participant data and the funding rules in effect at such time as the funding calculations are performed, though we expect future changes in the amount of contributions and expense recognized to be generally included in customer rates.

Accounting for Income Taxes — We estimate the amount of income tax payable or refundable for the current year and the deferred income tax liabilities and assets that results from estimating temporary differences resulting from the treatment of specific items, such as depreciation, for tax and financial statement reporting. Generally, these differences result in the recognition of a deferred tax asset or liability on our consolidated balance sheet and require us to make judgments regarding the probability of the ultimate tax impact of the various transactions we enter into. Based on these judgments, we may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realization of future tax benefits. Actual income taxes could vary from these estimates and changes in these estimates can increase income tax expense in the period that these changes in estimates occur.

Our determination of what qualifies as a capital cost versus a tax deduction for qualifying utility asset improvements as it relates to our income tax accounting method change beginning in 2012 is subject to subsequent adjustment as well as IRS audits, changes in tax laws, the expiration of a statute of limitations, or other unforeseen matters, and could impact the tax benefits that have already been recognized. We establish reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. We believe our tax positions comply with applicable law and that we have adequately recorded reserves as required. However, to the

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

(In thousands of dollars, except per share amounts)

extent the final tax outcome of these matters is different than our estimates recorded, we would then need to adjust our tax reserves which could result in additional income tax expense or benefits in the period that this information is known.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

We describe the impact of recent accounting pronouncements in Note 1 – *Summary of Significant Accounting Policies* of the consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES

Management's Report On Internal Control Over Financial Reporting

Management of Aqua America, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In assessing the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework* (2013). As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2014, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer

February 27, 2015

/s/ David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Aqua America, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of net income, of comprehensive income, of capitalization, of equity and of cash flows present fairly, in all material respects, the financial position of Aqua America, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014 based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

February 27, 2015

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF NET INCOME

(In thousands, except per share amounts)
Years ended December 31, 2014, 2013, and 2012

	2014	2013	2012
Operating revenues	\$ 779,903	\$ 761,893	\$ 750,685
Operating costs and expenses:			
Operations and maintenance	288,556	283,561	270,042
Depreciation	123,054	118,414	110,927
Amortization	3,481	5,571	5,253
Taxes other than income taxes	50,453	52,685	46,857
Total operating expenses	465,544	460,231	433,079
Operating income	314,359	301,662	317,606
Other expense (income):			
Interest expense, net	76,397	77,316	77,757
Allowance for funds used during construction	(5,134)	(2,275)	(4,142)
Loss (gain) on sale of other assets	4	(148)	(1,090)
Equity loss (earnings) in joint venture	3,989	2,665	(1,976)
Income from continuing operations before income taxes	239,103	224,104	247,057
Provision for income taxes	25,219	21,233	65,220
Income from continuing operations	213,884	202,871	181,837
Discontinued operations:			
Income from discontinued operations before income taxes	32,155	28,311	24,404
Provision for income taxes	12,800	9,882	9,678
Income from discontinued operations	19,355	18,429	14,726
Net income attributable to common shareholders	\$ 233,239	\$ 221,300	\$ 196,563
Income from continuing operations per share:			
Basic	\$ 1.21	\$ 1.15	\$ 1.04
Diluted	\$ 1.20	\$ 1.15	\$ 1.04
Income from discontinued operations per share:			
Basic	\$ 0.11	\$ 0.10	\$ 0.08
Diluted	\$ 0.11	\$ 0.10	\$ 0.08
Net income per common share:			
Basic	\$ 1.32	\$ 1.26	\$ 1.13
Diluted	\$ 1.31	\$ 1.25	\$ 1.12
Average common shares outstanding during the period:			
Basic	176,864	176,140	174,201
Diluted	177,763	176,814	174,918
Cash dividends declared per common share	\$ 0.634	\$ 0.584	\$ 0.536

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of dollars)

Years ended December 31, 2014, 2013, and 2012

	2014	2013	2012
Net income attributable to common shareholders	\$ 233,239	\$ 221,300	\$ 196,563
Other comprehensive income, net of tax:			
Unrealized holding gain on investments, net of tax expense of \$104, \$76, and \$106 for the years ended December 31, 2014, 2013, and 2012, respectively	193	141	198
Reclassification adjustment for loss (gain) reported in net income, net of tax (benefit) expense of \$(134), \$(49), and \$182 for the twelve months ended December 31, 2014, 2013, and 2012, respectively (1)	249	90	(339)
Comprehensive income	<u>\$ 233,681</u>	<u>\$ 221,531</u>	<u>\$ 196,422</u>

See accompanying notes to consolidated financial statements.

(1) Amount of pre-tax loss (gain) of \$383, \$139, and \$(521) reclassified from accumulated other comprehensive income to loss (gain) on sale of other assets on the consolidated statements of net income for the years ended December 31, 2014, 2013, and 2012, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2014 and 2013

	2014	2013
Assets		
Property, plant and equipment, at cost	\$ 5,707,017	\$ 5,350,868
Less: accumulated depreciation	1,305,027	1,212,300
Net property, plant and equipment	<u>4,401,990</u>	<u>4,138,568</u>
Current assets:		
Cash and cash equivalents	4,138	5,058
Accounts receivable and unbilled revenues, net	96,999	94,704
Income tax receivable	-	7,873
Deferred income taxes	26,849	40,038
Inventory, materials and supplies	12,788	11,353
Prepayments and other current assets	11,748	11,081
Assets of discontinued operations held for sale	-	30,747
Total current assets	<u>152,522</u>	<u>200,854</u>
Regulatory assets	725,591	585,140
Deferred charges and other assets, net	52,084	50,290
Investment in joint venture	43,334	48,695
Funds restricted for construction activity	47	47
Goodwill	31,184	28,223
Total assets	<u>\$ 5,406,752</u>	<u>\$ 5,051,817</u>
Liabilities and Equity		
Aqua America stockholders' equity:		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 178,591,254 and 177,928,922 in 2014 and 2013	\$ 89,296	\$ 88,964
Capital in excess of par value	758,145	743,335
Retained earnings	849,952	729,272
Treasury stock, at cost, 1,837,984 and 1,178,323 shares in 2014 and 2013	(42,838)	(27,082)
Accumulated other comprehensive income	788	346
Total Aqua America stockholders' equity	<u>1,655,343</u>	<u>1,534,835</u>
Noncontrolling interest	40	208
Total equity	<u>1,655,383</u>	<u>1,535,043</u>
Long-term debt, excluding current portion	1,560,655	1,468,583
Commitments and contingencies (See Note 9)	-	-
Current liabilities:		
Current portion of long-term debt	58,615	86,288
Loans payable	18,398	36,740
Accounts payable	63,035	65,815
Accrued interest	12,437	13,615
Accrued taxes	31,462	14,176
Other accrued liabilities	41,388	33,596
Liabilities of discontinued operations held for sale	-	29,649
Total current liabilities	<u>225,335</u>	<u>279,879</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	1,000,791	866,211
Customers' advances for construction	78,301	73,892
Regulatory liabilities	278,317	281,014
Other	109,692	81,552
Total deferred credits and other liabilities	<u>1,467,101</u>	<u>1,302,669</u>
Contributions in aid of construction	498,278	465,643
Total liabilities and equity	<u>\$ 5,406,752</u>	<u>\$ 5,051,817</u>

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

(In thousands of dollars, except per share amounts)

December 31, 2014 and 2013

	2014	2013
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 89,296	\$ 88,964
Capital in excess of par value	758,145	743,335
Retained earnings	849,952	729,272
Treasury stock, at cost	(42,838)	(27,082)
Accumulated other comprehensive income	788	346
Total Aqua America stockholders' equity	1,655,343	1,534,835
Noncontrolling interest	40	208
Total equity	1,655,383	1,535,043
Long-term debt of subsidiaries (substantially secured by utility plant):		
<u>Interest Rate Range</u>	<u>Maturity Date Range</u>	
0.00% to 0.99%	2023 to 2033	5,653
1.00% to 1.99%	2016 to 2035	24,871
2.00% to 2.99%	2024 to 2031	15,578
3.00% to 3.99%	2016 to 2047	190,875
4.00% to 4.99%	2020 to 2054	484,168
5.00% to 5.99%	2015 to 2043	242,102
6.00% to 6.99%	2015 to 2036	64,944
7.00% to 7.99%	2022 to 2027	34,424
8.00% to 8.99%	2021 to 2025	18,907
9.00% to 9.99%	2018 to 2026	27,800
10.00% to 10.99%	2018	6,000
		1,115,322
		1,101,339
Notes payable to bank under revolving credit agreement, variable rate, due 2017	72,000	-
Unsecured notes payable:		
Bank note at 1.921% due 2017	50,000	-
Notes at 3.57% due 2027	50,000	50,000
Notes ranging from 4.62% to 4.87%, due 2016 through 2024	144,400	171,400
Notes ranging from 5.01% to 5.95%, due 2014 through 2037	187,548	232,132
Total long-term debt	1,619,270	1,554,871
Current portion of long-term debt	58,615	86,288
Long-term debt, excluding current portion	1,560,655	1,468,583
Total capitalization	\$ 3,216,038	\$ 3,003,626

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands of dollars)

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balance at December 31, 2011	\$ 69,762	\$ 686,106	\$ 508,334	\$ (13,145)	\$ 256	\$ 504	\$ 1,251,817
Net income	-	-	196,563	-	-	17	196,580
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(333)	(333)
Other comprehensive loss, net of income tax of \$76	-	-	-	-	(141)	-	(141)
Dividends	-	-	(93,423)	-	-	-	(93,423)
Sale of stock (726,093 shares)	285	12,610	-	295	-	-	13,190
Repurchase of stock (77,355 shares)	-	-	-	(1,818)	-	-	(1,818)
Equity compensation plan (19,015 shares)	8	(8)	-	-	-	-	-
Exercise of stock options (1,041,796 shares)	417	14,181	-	-	-	-	14,598
Stock-based compensation	-	5,593	(171)	-	-	-	5,422
Balance at December 31, 2012	70,472	718,482	611,303	(14,668)	115	188	1,385,892
Net income	-	-	221,300	-	-	20	221,320
Other comprehensive income, net of income tax of \$125	-	-	-	-	231	-	231
Dividends	-	-	(102,889)	-	-	-	(102,889)
Stock split	17,655	(17,655)	-	-	-	-	-
Sale of stock (449,129 shares)	188	9,693	-	409	-	-	10,290
Repurchase of stock (415,233 shares)	-	-	-	(12,823)	-	-	(12,823)
Equity compensation plan (43,500 shares)	17	(17)	-	-	-	-	-
Exercise of stock options (1,566,089 shares)	632	25,066	-	-	-	-	25,698
Stock-based compensation	-	5,066	(442)	-	-	-	4,624
Employee stock plan tax benefits	-	2,700	-	-	-	-	2,700
Balance at December 31, 2013	88,964	743,335	729,272	(27,082)	346	208	1,535,043
Net income	-	-	233,239	-	-	40	233,279
Purchase of subsidiary shares from noncontrolling interest	-	-	-	-	-	(208)	(208)
Other comprehensive income, net of income tax of \$238	-	-	-	-	442	-	442
Dividends	-	-	(112,106)	-	-	-	(112,106)
Repurchase of stock (659,666 shares)	-	-	-	(15,756)	-	-	(15,756)
Equity compensation plan (212,920 shares)	107	(107)	-	-	-	-	-
Exercise of stock options (449,412 shares)	225	7,071	-	-	-	-	7,296
Stock-based compensation	-	6,811	(453)	-	-	-	6,358
Employee stock plan tax benefits	-	1,828	-	-	-	-	1,828
Other	-	(793)	-	-	-	-	(793)
Balance at December 31, 2014	\$ 89,296	\$ 758,145	\$ 849,952	\$ (42,838)	\$ 788	\$ 40	\$ 1,655,383

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

Years ended December 31, 2014, 2013, and 2012

	2014	2013	2012
Cash flows from operating activities:			
Net income attributable to common shareholders	\$ 233,239	\$ 221,300	\$ 196,563
Income from discontinued operations	19,355	18,429	14,726
Income from continuing operations	<u>213,884</u>	<u>202,871</u>	<u>181,837</u>
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	126,535	123,985	116,180
Deferred income taxes	31,477	26,699	77,217
Provision for doubtful accounts	5,838	4,708	4,785
Share-based compensation	6,819	5,066	5,550
Gain on sale of utility system	-	(1,025)	-
Gain on sale of other assets	4	(148)	(1,090)
Net decrease (increase) in receivables, inventory and prepayments	(20,299)	4,466	(4,937)
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	470	(13,425)	12,815
Decrease (increase) in income tax receivable	7,873	8,209	(16,082)
Other	(7,713)	4,003	(452)
Operating cash flows from continuing operations	<u>364,888</u>	<u>365,409</u>	<u>375,823</u>
Operating cash flows from (used in) discontinued operations, net	<u>(1,100)</u>	<u>2,410</u>	<u>(7,416)</u>
Net cash flows from operating activities	<u>363,788</u>	<u>367,819</u>	<u>368,407</u>
Cash flows from investing activities:			
Property, plant and equipment additions, including the debt component of allowance for funds used during construction of \$1,494, \$1,742, and \$3,954	(328,605)	(307,908)	(347,098)
Acquisitions of utility systems and other, net	(14,616)	(14,997)	(121,248)
Release of funds previously restricted for construction activity	-	23,531	67,498
Additions to funds restricted for construction activity	-	(6)	(2,165)
Net proceeds from the sale of utility systems and other assets	558	5,315	3,819
Investment in joint venture	-	(14,700)	(33,856)
Other	279	76	(1,512)
Investing cash flows used in continuing operations	<u>(342,384)</u>	<u>(308,689)</u>	<u>(434,562)</u>
Investing cash flows from discontinued operations, net	<u>49,883</u>	<u>87,126</u>	<u>69,887</u>
Net cash flows used in investing activities	<u>(292,501)</u>	<u>(221,563)</u>	<u>(364,675)</u>
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	6,064	5,114	6,821
Repayments of customers' advances	(4,028)	(4,303)	(5,958)
Net repayments of short-term debt	(18,342)	(43,643)	(27,388)
Proceeds from long-term debt	317,699	263,834	300,109
Repayments of long-term debt	(253,192)	(300,323)	(202,203)
Change in cash overdraft position	(322)	9,872	(10,929)
Proceeds from issuing common stock	-	10,290	13,190
Proceeds from exercised stock options	7,296	25,698	14,598
Share-based compensation windfall tax benefits	1,422	2,420	-
Repurchase of common stock	(15,756)	(12,823)	(1,464)
Dividends paid on common stock	(112,106)	(102,889)	(93,423)
Other	(793)	-	-
Financing cash flows used in continuing operations	<u>(72,058)</u>	<u>(146,753)</u>	<u>(6,647)</u>
Financing cash flows (used in) from discontinued operations, net	<u>(149)</u>	<u>34</u>	<u>232</u>
Net cash flows used in financing activities	<u>(72,207)</u>	<u>(146,719)</u>	<u>(6,415)</u>
Net decrease in cash and cash equivalents	(920)	(463)	(2,683)
Cash and cash equivalents at beginning of year	5,058	5,521	8,204
Cash and cash equivalents at end of year	<u>\$ 4,138</u>	<u>\$ 5,058</u>	<u>\$ 5,521</u>
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 72,441	\$ 75,452	\$ 74,152
Income taxes	<u>\$ 4,348</u>	<u>\$ 6,995</u>	<u>\$ 9,319</u>

See accompanying notes to consolidated financial statements.

See Note 1 – *Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation, Customers' Advances for Construction*, Note 10 – *Long-term Debt and Loans Payable*, and Note 14 – *Employee Stock and Incentive Plan* for a description of non-cash activities.

Note 1 – Summary of Significant Accounting Policies

Nature of Operations — Aqua America, Inc. (“Aqua America,” the “Company,” “we,” or “us”) is the holding company for regulated utilities providing water or wastewater services concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc., which accounted for approximately 53% of our operating revenues and approximately 70% of our net income for 2014. As of December 31, 2014, Aqua Pennsylvania provided water or wastewater services to approximately one-half of the total number of people we serve. Aqua Pennsylvania’s service territory is located in the suburban areas north and west of the City of Philadelphia and in 26 other counties in Pennsylvania. The Company’s other regulated utility subsidiaries provide similar services in seven other states. In addition, the Company’s non-regulated subsidiary, Aqua Resources Inc.: provides liquid waste hauling and disposal; water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies’ service territories; offers, through a third party, water and wastewater line repair service and protection solutions to households; inspects, cleans and repairs sanitary wastewater lines; installs and tests devices that prevent the contamination of potable water; designs and builds water and wastewater systems; and provides other non-regulated water and wastewater services. Lastly, the Company’s non-regulated subsidiary, Aqua Infrastructure LLC, provides non-utility raw water supply services for firms in the natural gas drilling industry.

In December 2014, we completed the sale of our water utility system in southwest Allen County, Indiana, which served approximately 13,000 customers, to the City of Fort Wayne, Indiana. The completion of this sale settled the dispute concerning the February 2008 acquisition, by eminent domain, by the City of Fort Wayne, of the northern portion of our water and wastewater utility systems. Refer to Note 3 – *Discontinued Operations and Other Disposition* for further information on this sale.

In September 2012, we began to market for sale our water and wastewater operations in Florida, which served approximately 38,000 customers, and our non-regulated wastewater treatment facility in Georgia. In March 2014, we completed the sale of our wastewater treatment facility in Georgia, which concluded our operations in Georgia. In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. In May 2012, we acquired all of American Water Works Company, Inc.’s (“American Water”) water and wastewater operations in Ohio, which serve approximately 59,000 customers, and simultaneously sold our water operations in New York, which served approximately 51,000 customers. In January 2012, we sold our regulated water operations in Maine, which served approximately 16,000 customers, to Connecticut Water Services, Inc. These transactions concluded our regulated operations in Maine and New York.

The operating results, cash flows, and financial position of the Company’s water utility systems in Fort Wayne, Indiana, and Georgia, Florida, New York, and Maine subsidiaries have been presented in the Company’s consolidated financial statements as discontinued operations. Unless specifically noted, the financial information presented in the notes to consolidated financial statements reflects the Company’s continuing operations.

The company has identified ten operating segments and has one reportable segment named the Regulated segment. The reportable segment is comprised of eight operating segments for our water and wastewater regulated utility companies which are organized by the states where we provide these services. These operating segments are aggregated into one reportable segment since each of the Company’s operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment. In addition, Aqua Resources and Aqua Infrastructure are not quantitatively significant to be reportable and are included as a component of “Other,” in addition to corporate costs that have not been allocated to the Regulated segment and intersegment eliminations.

Regulation — Most of the operating companies that are regulated public utilities are subject to regulation by the utility commissions of the states in which they operate. The respective utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow the Financial Accounting Standards Board’s (“FASB”) accounting guidance for regulated operations, which provides for the recognition of regulatory assets and liabilities as allowed by regulators for

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Use of Estimates in Preparation of Consolidated Financial Statements — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation — The consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified, including reporting discontinued operations (see Note 3 – *Discontinued Operations and Other Disposition*), to conform to the current period presentation.

Recognition of Revenues — Revenues in our Regulated segment principally include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. In addition, the Company's non-regulated subsidiary Aqua Resources recognizes revenues when services are performed or, for construction of water and wastewater systems, based on the percentage of completion of the project and Aqua Infrastructure recognizes revenues when services are performed. The Company's non-regulated subsidiaries recognized revenues of \$24,189 in 2014, \$17,712 in 2013, and \$18,247 in 2012.

Property, Plant and Equipment and Depreciation — Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for additions meeting certain criteria, allowance for funds used during construction. Water systems acquired are typically recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as goodwill, or as an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2014, utility plant includes a net credit acquisition adjustment of \$20,164, which is generally being amortized from 2 to 53 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled \$2,648 in 2014, \$2,480 in 2013, and \$2,698 in 2012.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. Utility expenditures for water main cleaning and relining of pipes are deferred and recorded in net property, plant and equipment in accordance with the FASB's accounting guidance for regulated operations. As of December 31, 2014, \$15,954 of these costs have been incurred since the last respective rate proceeding and the Company expects to recover these costs in future rates.

The cost of software upgrades and enhancements are capitalized if they result in added functionality which enable the software to perform tasks it was previously incapable of performing. Information technology costs associated with major system installations, conversions and improvements, such as software training, data conversion and business process reengineering costs, are deferred as a regulatory asset if the Company expects to recover these costs in future rates. If these costs are not deferred, then these costs are charged to operating expenses when incurred. As of December 31, 2014, \$21,490 of these costs have been deferred, since the last respective rate proceeding, as a regulatory asset, and the deferral is reported as a component of net property, plant and equipment.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Long-lived assets of the Company, which consist primarily of utility plant in service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

As of December 31, 2014, 2013, and 2012, property, plant and equipment additions purchased at the period end, but not yet paid for are \$31,039, \$30,974, and \$29,588, respectively.

Allowance for Funds Used During Construction — The allowance for funds used during construction (“AFUDC”) represents the capitalized cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction, contributions in aid of construction, or applicable state-revolving fund loans. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2014 was \$3,640, 2013 was \$533, and 2012 was \$188. No interest was capitalized by our non-regulated businesses.

Cash and Cash Equivalents — The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

The Company had a book overdraft, which represents transactions that have not cleared the bank accounts at the end of the period, for specific disbursement cash accounts of \$21,431 and \$21,753 at December 31, 2014 and 2013, respectively. The Company transfers cash on an as-needed basis to fund these items as they clear the bank in subsequent periods. The balance of the book overdraft is reported as accounts payable and the change in the book overdraft balance is reported as cash flows from financing activities, due to our ability to fund the overdraft with the Company’s credit facility.

Accounts Receivable — Accounts receivable are recorded at the invoiced amounts. The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in our existing accounts receivable, and is determined based on historical write-off experience and the aging of account balances. The Company reviews the allowance for doubtful accounts quarterly. Account balances are written off against the allowance when it is probable the receivable will not be recovered. When utility customers request extended payment terms, credit is extended based on regulatory guidelines, and collateral is not required.

Regulatory Assets, Deferred Charges and Other Assets — Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption as the Company has received or expects to receive rate recovery of these costs. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred as a regulatory asset and amortized over the period of rate recovery in accordance with the FASB’s accounting guidance for regulated operations. See Note – 6 *Regulatory Assets and Liabilities* for further information regarding the Company’s regulatory assets.

Marketable equity securities are carried on the balance sheet at fair market value, and changes in fair value are included in other comprehensive income.

Investment in Joint Venture — The Company uses the equity method of accounting to account for our 49% investment in a joint venture with a firm that operates natural gas pipelines and processing plants for the construction and operation of a private pipeline system to supply raw water to natural gas well drilling operations in the Marcellus Shale in north-central Pennsylvania, which commenced operations in the second quarter of 2012. Our initial investment is carried at cost. Subsequently, the carrying amount of our investment is adjusted to reflect capital contributions or distributions, and our equity in earnings or losses since the commencement of the system’s operations. Our share of equity earnings or losses in the joint venture is reported in the consolidated statements of net income as equity losses (earnings) in joint venture. During 2014 and 2013 we received distributions of \$1,372 and \$1,960, respectively.

Funds Restricted for Construction Activity — The proceeds received from specific financings for construction and capital improvement of utility facilities are held in escrow until the designated expenditures are incurred. These

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

Goodwill — Goodwill represents the excess cost over the fair value of net tangible and identifiable intangible assets acquired through acquisitions. Goodwill is not amortized but is tested for impairment annually, or more often, if circumstances indicate a possible impairment may exist. When testing goodwill for impairment, we may assess qualitative factors for some or all of our reporting units to determine whether it's more likely than not that the fair value of a reporting unit is less than its carrying amount. Alternatively, we may bypass this qualitative assessment for some of our reporting units and perform a quantitative goodwill impairment test. If we perform a quantitative test and determine that the fair value of a reporting unit is less than its carrying amount, we would determine the reporting unit's implied fair value of its goodwill and compare it with the carrying amount of its goodwill to measure such impairment. The Company tested the goodwill attributable for each of our reporting units for impairment as of July 31, 2014, in conjunction with the timing of our annual strategic business plan, and concluded that the estimated fair value of each reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount, indicating that none of the Company's goodwill was impaired. The following table summarizes the changes in the Company's goodwill:

	Regulated Segment	Other	Consolidated
Balance at December 31, 2012	\$ 24,031	\$ 4,121	\$ 28,152
Goodwill acquired during year	552	-	552
Reclassifications to utility plant acquisition adjustment	(481)	-	(481)
Balance at December 31, 2013	24,102	4,121	28,223
Goodwill acquired during year	182	2,515	2,697
Reclassifications to utility plant acquisition adjustment	(302)	-	(302)
Other	582	(16)	566
Balance at December 31, 2014	\$ 24,564	\$ 6,620	\$ 31,184

As of December 31, 2013 there was no goodwill associated with the Company's assets of discontinued operations held for sale.

The reclassification of goodwill to utility plant acquisition adjustment results from a mechanism approved by the applicable utility commission. The mechanism provides for the transfer over time, and the recovery through customer rates, of goodwill associated with some acquisitions upon achieving specific objectives.

Income Taxes — The Company accounts for some income and expense items in different time periods for financial and tax reporting purposes. Deferred income taxes are provided on specific temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not currently recovered in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties. Judgment is required in evaluating the Company's Federal and state tax positions. Despite management's belief that the Company's tax return positions are fully supportable, the Company establishes reserves when it believes that its tax positions are likely to be challenged and it may not fully prevail in these challenges. The Company's provision for income taxes includes interest, penalties and reserves for uncertain tax positions.

In 2012, the Company changed its tax method of accounting for qualifying utility asset improvement costs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania, which provides for a reduction in current income tax expense as a result of the recognition of income tax benefits for qualifying utility asset improvements. This change for 2014, 2013, and 2012 results in a significant reduction in the effective income tax rate, a reduction in current income tax expense, and reduces the amount of taxes currently payable. For qualifying capital expenditures made prior to 2012, the resulting tax benefits have been deferred as of December 31, 2012 and, in accordance with the rate order, a ten year amortization of the income tax benefits, which reduces future income tax expense, commenced in 2013. During 2013 and 2014, our other regulated operating divisions outside of Pennsylvania adopted this change. Due to the rate treatment afforded in these divisions they do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits and had no impact on the Company's effective income tax rate.

Customers' Advances for Construction and Contributions in Aid of Construction — Water mains, other utility property or, in some instances, cash advances to reimburse the Company for its costs to construct water mains or other utility property, are contributed to the Company by customers, real estate developers and builders in order to extend utility service to their properties. The value of these contributions is recorded as customers' advances for construction. Non-cash property, in the form of water mains and wastewater systems, has been received, generally from developers, as advances or contributions of \$43,642, \$26,188, and \$27,212 in 2014, 2013, and 2012, respectively. Over time, the amount of non-cash contributed property will vary based on the timing of the contribution of the non-cash property and the volume of non-cash contributed property received in connection with development in our service territories. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the property, or as new customers are connected to and take service from the applicable water main. After all refunds are made, any remaining balance is transferred to contributions in aid of construction. Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Based on regulatory conventions in states where the Company operates, generally our subsidiaries depreciate contributed property and amortize contributions in aid of construction at the composite rate of the related property. Contributions in aid of construction and customers' advances for construction are deducted from the Company's rate base for rate-making purposes, and therefore, no return is earned on contributed property.

Inventories, Materials and Supplies — Inventories are stated at cost. Cost is determined using the first-in, first-out method.

Stock-Based Compensation — The Company records compensation expense in the financial statements for stock-based awards based on the grant date fair value of those awards. Stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

Fair Value Measurements — The Company follows the FASB's accounting guidance for fair value measurements and disclosures, which defines fair value and establishes a framework for using fair value to measure assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access;
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in non-active markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: inputs that are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

observable inputs and minimize the use of unobservable inputs. There have been no changes in the valuation techniques used to measure fair value for the years ended December 31, 2014 and 2013.

Recent Accounting Pronouncements — In May 2014, the FASB issued updated accounting guidance on recognizing revenue from contracts with customers, which outlines a single comprehensive model that an entity will apply to determine the measurement of revenue and timing of recognition. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The updated guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. The updated guidance is effective retrospectively for reporting periods beginning after December 15, 2016. The Company is currently evaluating the requirements of the updated guidance to determine the impact of adoption.

In April 2014, the FASB issued updated accounting guidance which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2014, with early adoption available. The Company will adopt the provisions of the updated accounting guidance for its quarterly reporting period beginning January 1, 2015, and the Company does not expect the adoption of the revised guidance to have an impact on the Company's consolidated results of operations or consolidated financial position.

Note 2 – Acquisitions

In 2014, the Company completed 16 acquisitions of water and wastewater utility systems in various states. The total purchase price of these utility systems consisted of \$10,530 in cash. Further, in August 2014, the Company acquired a non-regulated business that specializes in the inspection, cleaning and repair of storm and sanitary sewer lines. The total purchase price consisted of \$3,010, of which a total of \$810 is contingent upon satisfying certain annual performance targets over a three-year period. Additionally, in December 2014, the Company acquired a non-regulated business that specializes in providing water distribution system services to prevent the contamination of potable water, including training to waterworks operators. The total purchase price consisted of \$1,800, of which \$700 was paid in the first quarter of 2015. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company for these utility systems and non-regulated businesses were \$4,403. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

In May 2014, the Company entered into an asset purchase agreement for the acquisition of the water and wastewater utility system assets of North Maine Utilities owned by the Village of Glenview, Illinois serving approximately 7,200 customers, for cash at closing of up to \$22,000, subject to final adjustment pursuant to the purchase agreement. Closing of this acquisition, which is subject to regulatory approval, is anticipated to occur in mid-2015.

In 2013, the Company completed 15 acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of \$14,997 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$3,180 in 2014 and \$2,103 in 2013. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

As part of the Company's growth-through-acquisition strategy, in July 2011, the Company entered into a definitive agreement with American Water to purchase all of the stock of the subsidiary that holds American Water's regulated water and wastewater operations in Ohio. American Water's Ohio operations served approximately 59,000 customers. On May 1, 2012, the Company completed its acquisition of American Water's water and wastewater operations in Ohio. The total purchase price at closing consisted of \$102,154 in cash plus specific assumed liabilities, including debt of \$14,281, as adjusted pursuant to the purchase agreement based on book value at closing. The transaction has been accounted for as a business combination. The Company has included the results of its acquisition in Ohio in our consolidated financial statements as part of our Regulated segment since the date of acquisition. The operating revenue and earnings included in the consolidated financial statements of the Company during the period owned by the Company was \$42,710 and \$5,634 in 2014, respectively, \$41,167 and \$3,987 in 2013, respectively, and \$27,981 and \$3,265 in 2012, respectively. The pro forma impact of the Company's Ohio acquisition

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

was not material to our results of operations for the year ended December 31, 2012. The purchase price allocation was as follows:

		May 1, 2012
Property, plant and equipment, net	\$	119,595
Current assets		6,852
Other long-term assets		7,525
Goodwill		1,679
Total assets acquired		135,651
Current liabilities		3,409
Long-term debt, excluding current portion		14,233
Other long-term liabilities		15,855
Total liabilities assumed		33,497
Net assets acquired	\$	102,154

In addition to the Company's acquisition in Ohio, during 2012, the Company completed 16 acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of \$19,094 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$4,210 in 2014, \$4,033 in 2013, and \$1,527 in 2012. The pro forma effect of the businesses acquired is not material either individually or collectively to the Company's results of operations.

Note 3 – Discontinued Operations and Other Disposition

Discontinued Operations – The City of Fort Wayne, Indiana (the “City”) authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company's operating subsidiaries in Indiana (the “Northern Assets”). In January 2008, the Company reached a settlement with the City to transition the Northern Assets in February 2008 upon receipt of the City's initial valuation payment of \$16,911. The settlement agreement specifically stated that the final valuation of the Northern Assets will be determined through a continuation of the legal proceedings that were filed challenging the City's valuation. On February 12, 2008, the Company turned over the Northern Assets to the City upon receipt of the initial valuation payment. The proceeds received by the Company were in excess of the book value of the assets relinquished. No gain had been recognized due to the contingency regarding the final valuation of the assets. The net book value of the Northern Assets were removed from the consolidated balance sheet and the difference between the net book value and the initial payment received had been deferred and was recorded in other accrued liabilities on the Company's consolidated balance sheet. The Northern Assets relinquished represented approximately 0.3% of the Company's total assets.

In addition, in December 2012, the Fort Wayne City Council considered an ordinance that sought to declare it a “public convenience and necessity” to acquire certain of the Company's water utility system assets located in the southwest section of the City and in Allen County (the “Southern Assets”), and if negotiations with Fort Wayne officials were to fail, to condemn the Southern Assets. The first public hearing on the ordinance was held on January 22, 2013 and a subsequent hearing scheduled for February 5, 2013 was not held due to ongoing settlement discussions between the parties. As part of such settlement discussions, the parties negotiated an acquisition agreement that was approved by the City on May 13, 2014. The acquisition agreement settled both the acquisition of the Southern Assets and the dispute concerning the Northern Assets. The acquisition agreement established an aggregate purchase price of \$67,011 for the Southern and Northern Assets. The City had already paid Aqua Indiana \$16,911 for the Northern Assets. On October 22, 2014, the Indiana Utility Regulatory Commission approved the transaction. In December 2014, we completed the sale of the Southern Assets to the City of Fort Wayne, Indiana for \$67,011, which included a payment received in December 2014 of \$50,100 in addition to \$16,911 the City already paid the Company for the Northern Assets. We recognized a gain on sale of \$29,210 (\$17,611 after-tax) in the fourth quarter of 2014. As a

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Notes to Consolidated Financial Statements (continued)
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result of this transaction, Aqua Indiana will expand its sewer customer base starting in 2015 by accepting new wastewater flows from the City of Fort Wayne.

In September 2012, the Company began to market for sale its water and wastewater operations in Florida, which served approximately 38,000 customers, and the Company's non-regulated wastewater treatment facility in Georgia. In March 2014, we completed the sale of our wastewater treatment facility in Georgia, which concluded our operations in this state. In March, April, and December 2013, through five separate sales transactions, we completed the sale of our water and wastewater utility systems in Florida, which concluded our regulated operations in Florida. The Company received total net proceeds from these sales of \$88,934 and recognized a gain on sale of \$21,178 (\$13,766 after-tax).

In July 2011, the Company entered into a definitive agreement with American Water to sell its operations in New York for its book value at closing plus specific assumed liabilities, including debt of approximately \$23,000. On May 1, 2012, the Company completed the sale for net proceeds of \$36,688 in cash as adjusted pursuant to the sale agreement based on book value at closing. In 2012, the Company recognized a loss on sale of \$2,736 (\$1,874 after-tax), resulting from charges incurred from the sale. In 2011, the Company recognized additional income tax expense of \$3,245 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its Aqua New York subsidiary. The Company's New York operations served approximately 51,000 customers.

In July 2011, the Company entered into a definitive agreement with Connecticut Water Service, Inc. to sell its operations in Maine, which served approximately 16,000 customers, for cash at closing plus specific assumed liabilities, including debt of \$17,364. On January 1, 2012, the Company completed the sale for net proceeds of \$36,870, and recognized a gain on sale of \$17,699 (\$10,821 after-tax). In 2011, the Company recognized additional income tax expense of \$4,008 for the additional deferred tax liabilities that arise from the difference between the stock and tax basis of the Company's investment in its Aqua Maine subsidiary.

The operating results, cash flows, and financial position of the Company's subsidiaries named above have been presented in the Company's consolidated statements of net income, consolidated statements of cash flow, and consolidated balance sheets as discontinued operations.

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A summary of discontinued operations presented in the consolidated statements of net income includes the following:

	Years Ended December 31,		
	2014	2013	2012
Operating revenues	\$ 6,324	\$ 19,014	\$ 38,533
Total operating expenses	3,262	11,880	27,450
Operating income	3,062	7,134	11,083
Other (income) expense:			
Gain on sale	(29,093)	(21,178)	(14,718)
Other, net	-	1	1,397
Income from discontinued operations before income taxes	32,155	28,311	24,404
Provision for income taxes	12,800	9,882	9,678
Income from discontinued operations	\$ 19,355	\$ 18,429	\$ 14,726

The assets and liabilities of discontinued operations presented in the consolidated balance sheets include the following:

	December 31,
	2013
Property, plant and equipment, at cost	\$ 37,303
Less: accumulated depreciation	8,378
Net property, plant and equipment	28,925
Current assets	1,362
Regulatory assets	460
Assets of discontinued operations held for sale	30,747
Current liabilities	16,212
Deferred income taxes and investment tax credits	1,308
Contributions in aid of construction	10,935
Other liabilities	1,194
Liabilities of discontinued operations held for sale	29,649
Net assets	\$ 1,098

As of December 31, 2014 the Company does not have any assets or liabilities of discontinued operations held for sale.

Other Disposition – The following disposition has not been presented as discontinued operations in the Company’s consolidated financial statements as the Company does not believe that disclosure of the following disposed water and wastewater utility system as discontinued operations is meaningful to the reader of the financial statements for making investment decisions. The gain disclosed below is reported in the consolidated statements of net income as a reduction to operations and maintenance expense.

In June 2013, the Company sold a water and wastewater utility system for net proceeds of \$3,400. The sale resulted in the recognition of a gain on sale of these assets, net of expenses, of \$1,025 (\$615 after-tax), and is reported in the consolidated statement of net income as a reduction to operations and maintenance expense. The utility system represented approximately 0.04% of the Company’s total assets.

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Note 4 – Property, Plant and Equipment

	December 31,		Approximate Range of Useful Lives	Weighted Average Useful Life
	2014	2013		
Utility plant and equipment:				
Mains and accessories	\$ 2,516,895	\$ 2,331,110	26 - 92 years	76 years
Services, hydrants, treatment plants and reservoirs	1,426,701	1,355,911	5 - 85 years	48 years
Operations structures and water tanks	252,908	238,371	14 - 70 years	47 years
Miscellaneous pumping and purification equipment	654,316	633,124	5 - 90 years	40 years
Meters, data processing, transportation and operating equipment	650,253	607,068	4 - 63 years	25 years
Land and other non-depreciable assets	100,009	85,076	-	-
Utility plant and equipment	5,601,082	5,250,660		
Utility construction work in progress	116,644	116,229	-	-
Net utility plant acquisition adjustment	(20,164)	(24,808)	2 - 53 years (1)	24 years
Non-utility plant and equipment	9,455	8,787	3 - 25 years	7 years
Total property, plant and equipment	<u>\$ 5,707,017</u>	<u>\$ 5,350,868</u>		

(1) Net utility plant acquisition adjustment is generally being amortized from 2 to 53 years, except where not permitted.

Note 5 – Accounts Receivable

	December 31,	
	2014	2013
Billed utility revenue	\$ 55,537	\$ 56,178
Unbilled revenue	35,566	33,346
Other	11,261	9,593
	102,364	99,117
Less allowance for doubtful accounts	5,365	4,413
Net accounts receivable	<u>\$ 96,999</u>	<u>\$ 94,704</u>

The Company's utility customers are located principally in the following states: 47% in Pennsylvania, 16% in Ohio, 10% in North Carolina, 8% in Texas, and 7% in Illinois. No single customer accounted for more than one percent of the Company's regulated operating revenues during the years ended December 31, 2014, 2013, and 2012. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2014	2013	2012
Balance at January 1,	\$ 4,413	\$ 4,299	\$ 4,485
Amounts charged to expense	5,838	4,708	4,785
Accounts written off	(6,120)	(5,884)	(5,935)
Recoveries of accounts written off	1,234	1,290	964
Balance at December 31,	<u>\$ 5,365</u>	<u>\$ 4,413</u>	<u>\$ 4,299</u>

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Note 6 – Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and regulatory liabilities are as follows:

	December 31, 2014		December 31, 2013	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$ 596,459	\$ 206,940	\$ 494,308	\$ 223,592
Utility plant retirement costs	7,687	25,236	12,083	22,365
Post-retirement benefits	108,586	46,074	66,534	34,983
Accrued vacation	1,605	-	-	-
Water tank painting	1,533	-	2,430	-
Fair value adjustment of long-term debt assumed in acquisition	4,004	-	4,371	-
Rate case filing expenses and other	5,717	67	5,414	74
	\$ 725,591	\$ 278,317	\$ 585,140	\$ 281,014

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to specific differences between tax and book depreciation expense, are recognized in the rate setting process on a cash basis or as a reduction in current income tax expense and will be recovered as they reverse. Amounts include differences that arise between specific utility asset improvement costs capitalized for book and deducted as an expense for tax purposes.

A portion of the regulatory liability for income taxes is related to Aqua Pennsylvania's income tax accounting change for the tax benefits realized on the Company's 2012 tax return, which have not yet reduced current income tax expense due to the ten year amortization period which began in 2013. This amortization was stipulated in a June 2012 rate order issued to Aqua Pennsylvania and is subject to specific parameters being met each year. Beginning in 2013, the Company amortized \$16,734, annually, of its deferred income tax benefits, which reduced current income tax expense and increased the Company's net income.

The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred.

The regulatory asset for accrued vacation represents costs that would otherwise be charged to operations and maintenance expense for vacation that is earned by employees, which is recovered as a cost of service.

The regulatory asset for Post-retirement benefits, which includes pension and other post-retirement benefits, primarily reflects a regulatory asset that has been recorded at December 31, 2014 and 2013 for the costs that would otherwise be charged to stockholders' equity for the underfunded status of the Company's pension and other post-retirement benefit plans. The Company also has a regulatory asset related to post-retirement benefits costs that represents costs already incurred which are now being recovered in rates over 10 years. The regulatory liability for post-retirement benefits represents costs recovered in rates in excess of post-retirement benefits expense.

Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. Water tank painting costs are generally being amortized over a period ranging from 7 to 15 years.

The Company recorded a fair value adjustment for fixed rate, long-term debt assumed in acquisitions that matures in various years ranging from 2022 to 2029. The regulatory asset or liability results from the rate setting process continuing to recognize the historical interest cost of the assumed debt.

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The regulatory asset related to rate case filing expenses and other represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years, and costs incurred by the Company for which it has received or expects to receive rate recovery.

The regulatory asset related to the costs incurred for information technology software projects and water main cleaning and relining projects are described in Note 1 – *Summary of Significant Accounting Policies – Property, Plant and Equipment and Depreciation*.

Note 7 – Income Taxes

The provision for income taxes for the Company’s continuing operations consists of:

	Years Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ (11,296)	\$ (11,153)	\$ (15,008)
State	5,038	5,687	3,011
	(6,258)	(5,466)	(11,997)
Deferred:			
Federal	37,500	30,327	67,558
State	(6,023)	(3,628)	9,659
	31,477	26,699	77,217
Total tax expense	\$ 25,219	\$ 21,233	\$ 65,220

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5% to 9.99% for all years presented.

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The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense for the Company's continuing operations are as follows:

	Years Ended December 31,		
	2014	2013	2012
Computed Federal tax expense at statutory rate	\$ 83,686	\$ 78,436	\$ 86,470
Decrease in Federal tax expense related to an income tax accounting change for qualifying utility asset improvement costs	(57,015)	(57,467)	(28,948)
State income taxes, net of Federal tax benefit	(640)	1,338	8,235
Increase in tax expense for depreciation expense to be recovered in future rates	317	295	361
Stock-based compensation	(168)	(421)	(386)
Deduction for Aqua America common dividends paid under employee benefit plan	(350)	(414)	(387)
Amortization of deferred investment tax credits	(416)	(420)	(420)
Other, net	(195)	(114)	295
Actual income tax expense	<u>\$ 25,219</u>	<u>\$ 21,233</u>	<u>\$ 65,220</u>

In December 2012, the Company changed its tax method of accounting for qualifying utility system repairs in Aqua Pennsylvania effective with the tax year ended December 31, 2012 and for prior tax years. The tax accounting method was changed to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for book and tax purposes. This change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania which provides for a reduction in current income tax expense as a result of the recognition of some income tax benefits resulting from the income tax accounting change. As a result of the rate order, the net 2012 income tax benefits of \$33,565 reduced the Company's current income tax expense and increased net income in the fourth quarter of 2012. In 2013, the Company recorded \$60,555 of income tax benefits, which includes \$14,908 of income tax benefits recognized based on final filing positions used in the 2012 tax return. In 2014, the Company recorded \$69,048 of income tax benefits. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and based on the rate order, in 2013, the Company began to amortize 1/10th of these expenditures. In accordance with the rate order, the amortization is expected to reduce current income tax expense during periods when qualifying parameters are met. Beginning in 2013, the Company amortized the qualifying capital expenditures made prior to 2012 and recognized \$16,734, annually, of deferred income tax benefits, which reduced current income tax expense and increased the Company's net income. The Company's effective income tax rate for 2014, 2013, and 2012, for its continuing operations, was 10.5%, 9.5%, and 26.4%, respectively.

During 2013 and 2014, additional income tax benefits were recognized of \$17,736 and \$8,719, respectively, related to a change in the Company's tax method of accounting for qualifying utility system repairs in non-Pennsylvania regulated operating divisions. These divisions currently do not employ a method of accounting that provides for a reduction in current income taxes as a result of the recognition of income tax benefits, and as such the change in the Company's tax method of accounting in these operating divisions had no impact on the Company's effective income tax rate.

In September 2013, the Department of Treasury and the Internal Revenue Service issued "Guidance Regarding Deduction and Capitalization of Expenditures Related to Tangible Property" which contains standards for determining whether and when a taxpayer must capitalize costs incurred in acquiring, maintaining or improving tangible property. These regulations were effective for the Company's 2014 fiscal year, and the adoption of these regulations did not have a material impact on the Company's consolidated results of operations or consolidated financial position.

The Company establishes reserves for uncertain tax positions based upon management's judgment as to the sustainability of these positions. These accounting estimates related to the uncertain tax position reserve require judgments to be made as to the sustainability of each uncertain tax position based on its technical merits. The Company believes its tax positions comply with applicable law and that it has adequately recorded reserves as required. However, to the extent the final tax outcome of these matters is different than the estimates recorded, the Company would then adjust its tax reserves or unrecognized tax benefits in the period that this information becomes

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known. The Company has elected to recognize accrued interest and penalties related to uncertain tax positions as income tax expense.

The following table provides the changes in the Company's unrecognized tax benefits:

	2014	2013
Balance at January 1,	\$ 28,690	\$ -
Additions based on tax position related to the current year	1,077	28,690
Reductions based on tax position related to prior years	(4,475)	-
Balance at December 31,	<u>\$ 25,292</u>	<u>\$ 28,690</u>

The unrecognized tax benefits relate to the income tax accounting change, and the tax position is attributable to a temporary difference. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. As a result of the regulatory treatment afforded by the income tax accounting change in Pennsylvania and despite this position being a temporary difference, as of December 31, 2014 and 2013, \$12,567 and \$9,795, respectively, of these tax benefits would have an impact on the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position. The reductions based on tax position related to prior years include a correction in the calculation of the unrecognized tax benefits that would have the effect of reducing the unrecognized tax benefits by \$3,154 as of December 31, 2013. As of December 31, 2013, this change had no impact on either the consolidated financial statements or the amount of the tax benefits that impact the Company's effective income tax rate in the event the Company does sustain all, or a portion, of its tax position and management considers the impact on its 2013 financial statement disclosures to be immaterial.

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The following table provides the components of the net deferred tax liability from continuing operations:

	December 31,	
	2014	2013
Deferred tax assets:		
Customers' advances for construction	\$ 27,130	\$ 26,732
Costs expensed for book not deducted for tax, principally accrued expenses	14,279	11,085
Utility plant acquisition adjustment basis differences	12,314	9,922
Post-retirement benefits	34,653	19,311
Tax loss carryforward	112,719	128,688
Other	1,528	3,133
	<u>202,623</u>	<u>198,871</u>
Less valuation allowance	6,578	6,431
	<u>196,045</u>	<u>192,440</u>
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	966,596	879,338
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	161,479	112,307
Tax effect of regulatory asset for post-retirement benefits	34,653	19,311
Deferred investment tax credit	7,259	7,657
	<u>1,169,987</u>	<u>1,018,613</u>
Net deferred tax liability	<u>\$ 973,942</u>	<u>\$ 826,173</u>

At December 31, 2014, the Company has a cumulative Federal net operating loss ("NOL") of \$209,573. The Company believes the Federal NOLs are more likely than not to be recovered and require no valuation allowance. The Company's Federal NOLs do not begin to expire until 2031.

In 2012 and 2011, as a result of the Company's Federal cumulative NOLs the Company ceased recognizing the windfall tax benefit associated with stock-based compensation, because the deduction did not reduce income taxes payable. Upon realization of the Company's Federal NOLs, the Company will recognize a windfall tax benefit of \$4,822.

At December 31, 2014 the Company has a cumulative state NOL of \$554,488, a portion of which is offset by a valuation allowance because the Company does not believe these NOLs are more likely than not to be realized. The state NOLs do not begin to expire until 2023.

The Company has unrecognized tax positions that result in the associated tax benefit being unrecognized. The Company's Federal and state NOL carryforwards are reduced by an unrecognized tax position, on a gross basis, of \$56,007 and \$83,543, respectively, which results from the Company's adoption in 2013 of the FASB's accounting guidance on the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The amounts of the Company's Federal and state NOL carryforwards prior to being reduced by the unrecognized tax positions are \$265,580 and \$638,031, respectively. The Company records its unrecognized tax benefit as a reduction to its deferred income tax liability.

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As of December 31, 2014, the Company's Federal income tax returns for all years through 2011 have been closed. Tax years 2012 through 2014 remain open to Federal examination. The statute remains open for the Company's state income tax returns for tax years 2011 through 2014 in the various states in which the Company's conducts business.

Note 8 – Taxes Other than Income Taxes

The following table provides the components of taxes other than income taxes:

	Years Ended December 31,		
	2014	2013	2012
Property	\$ 24,133	\$ 25,341	\$ 21,162
Capital Stock	1,315	2,127	3,196
Gross receipts, excise and franchise	10,945	11,775	9,975
Payroll	7,583	7,395	6,912
Other	6,477	6,047	5,612
Total taxes other than income	<u>\$ 50,453</u>	<u>\$ 52,685</u>	<u>\$ 46,857</u>

Note 9 – Commitments and Contingencies

The following disclosures reflect commitments and contingencies for the Company's continuing operations.

Commitments – The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. The future annual minimum lease payments due are as follows:

	2015		2016		2017		2018		2019		Thereafter
	\$ 1,332	\$	938	\$	531	\$	402	\$	379	\$	1,514

The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2015 and 2051 and contain renewal provisions. Some leases are subject to an adjustment every five years based on changes in the Consumer Price Index. Subject to the aforesaid adjustment, during each of the next five years, an average of \$557 of annual lease payments for land is due, and the aggregate of the years remaining approximates \$13,189.

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases through 2019 are expected to average \$9,281 and the aggregate of the years remaining approximates \$23,458.

The Company has entered into purchase obligations, in the ordinary course of business, that include agreements for water treatment processes at some of its wells in a small number of its divisions. The 20 year term agreement provides for the use of treatment equipment and media used in the treatment process and are subject to adjustment based on changes in the Consumer Price Index. The future contractual cash obligation related to these agreements are as follows:

	2015		2016		2017		2018		2019		Thereafter
	\$ 944	\$	963	\$	982	\$	1,002	\$	1,022	\$	9,886

In addition, as of December 31, 2014, the estimated capital expenditures required under legal and binding long-term contracts are approximately \$4,200 in 2018.

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Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2014	2013	2012
Operating lease expense	\$ 2,820	\$ 3,375	\$ 3,789
Purchased water under long-term agreements	13,139	12,923	11,796
Water treatment expense under contractual agreement	892	926	897

Contingencies – The Company is routinely involved in various disputes, claims, lawsuits and other regulatory and legal matters, including both asserted and unasserted legal claims, in the ordinary course of business. The status of each such matter, referred to herein as a loss contingency, is reviewed and assessed in accordance with applicable accounting rules regarding the nature of the matter, the likelihood that a loss will be incurred, and the amounts involved. As of December 31, 2014, the aggregate amount of \$11,885 is accrued for loss contingencies and is reported in the Company’s consolidated balance sheet as other accrued liabilities and other liabilities. These accruals represent management’s best estimate of probable loss (as defined in the accounting guidance) for loss contingencies or the low end of a range of losses if no single probable loss can be estimated. For some loss contingencies, the Company is unable to estimate the amount of the probable loss or range of probable losses. While the final outcome of these loss contingencies cannot be predicted with certainty, and unfavorable outcomes could negatively impact the Company, at this time in the opinion of management, the final resolution of these matters are not expected to have a material adverse effect on the Company’s financial position, results of operations or cash flows. Further, Aqua America has insurance coverage for a number of these loss contingencies, and as of December 31, 2014, estimates that approximately \$1,210 of the amount accrued for these matters are probable of recovery through insurance, which amount is also reported in the Company’s consolidated balance sheet as deferred charges and other assets, net. The Company is involved in the following condemnation proceedings and legal matters, as described below:

- Refer to Note 3 – *Discontinued Operations and Other Disposition* for a discussion of the settlement of the Company’s challenge to the valuation of the northern portion of its Fort Wayne, Indiana utility system that was turned over to the City of Fort Wayne, Indiana in February 2008.
- In January 2014, the Company’s subsidiary in Texas was notified by the Hays Trinity Groundwater Conservation District of alleged violations of its rules with potential fines totaling \$227 for four of our water systems in which the unaccounted for water is alleged to exceed a certain level of the groundwater withdrawn from the district in 2013. The Company reached an agreement on the alleged violations in October 2014, which resulted in various corrections to the District’s initial allegations, no fines or penalties, an agreement for the Company to invest capital in its water mains in an amount under \$100, and an approximate \$12 payment to support and promote water conservation education and awareness.

Although the results of legal proceedings cannot be predicted with certainty, there are no other pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of its properties is the subject that are material or are expected to have a material effect on the Company’s financial position, results of operations or cash flows.

Additionally, the Company self-insures its employee medical benefit program, and maintains stop-loss coverage to limit the exposure arising from these claims. The Company’s reserve for these claims totaled \$1,468 and \$1,965 at December 31, 2014 and 2013 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

Note 10 – Long-term Debt and Loans Payable

Long-term Debt – The consolidated statements of capitalization provide a summary of long-term debt as of December 31, 2014 and 2013. The supplemental indentures with respect to specific issues of the first mortgage bonds restrict the ability of Aqua Pennsylvania and other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. Loan agreements for Aqua Pennsylvania and other operating subsidiaries of the Company contain restrictions on minimum net assets. As of

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December 31, 2014, restrictions on the net assets of the Company were \$1,160,134 of the total \$1,655,383 in net assets. Included in this amount were restrictions on Aqua Pennsylvania's net assets of \$862,641 of their total net assets of \$1,249,780. As of December 31, 2014, approximately \$1,009,980 of Aqua Pennsylvania's retained earnings of approximately \$1,029,980 and approximately \$92,000 of the retained earnings of approximately \$139,000 of other subsidiaries were free of these restrictions. Some supplemental indentures also prohibit Aqua Pennsylvania and some other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Sinking fund payments are required by the terms of specific issues of long-term debt. Excluding amounts due under the Company's revolving credit agreement, the future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2015	2016	2017	2018	2019	Thereafter
0.00% to 0.99%	\$ 490	\$ 491	\$ 72,491	\$ 490	\$ 490	\$ 3,201
1.00% to 1.99%	2,027	1,941	51,801	1,830	1,756	15,516
2.00% to 2.99%	1,194	1,225	1,256	1,291	1,326	9,286
3.00% to 3.99%	2,617	2,684	2,780	2,871	2,824	227,099
4.00% to 4.99%	277	11,091	11,101	11,116	50,327	544,656
5.00% to 5.99%	38,610	16,883	25,060	10,716	36,251	302,130
6.00% to 6.99%	12,000	-	8,944	13,000	-	31,000
7.00% to 7.99%	375	442	478	518	560	32,051
8.00% to 8.99%	325	446	481	519	563	16,573
9.00% to 9.99%	700	700	700	5,700	700	19,300
10.00% to 10.99%	-	-	-	6,000	-	-
Total	\$ 58,615	\$ 35,903	\$ 175,092	\$ 54,051	\$ 94,797	\$ 1,200,812

In December 2014, Aqua Pennsylvania issued \$65,000 of first mortgage bonds, of which \$25,000 is due in 2035, \$15,000 is due in 2040, \$13,000 is due in 2045, and \$12,000 is due in 2054 with interest rates of 3.64%, 4.01%, 4.06%, and 4.11%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In September 2014, Aqua Pennsylvania entered into a \$50,000 three year unsecured loan at an interest rate of 1.92%. The proceeds from this loan will be used for refinancing existing indebtedness and general working capital purposes including financing acquisitions.

In October 2013, Aqua Pennsylvania issued \$75,000 of first mortgage bonds, of which \$25,000 is due in 2031, \$25,000 in 2045, and \$25,000 in 2046 with interest rates of 3.94%, 4.61%, and 4.62%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

In May 2013, Aqua Ohio issued \$85,000 of first mortgage bonds, of which \$35,000 is due in 2033, \$30,000 in 2044, and \$20,000 in 2048 with interest rates of 3.75%, 4.18%, and 4.43%, respectively. The proceeds from these bonds were used to repay existing indebtedness and for general corporate purposes.

As of December 31, 2014, the trustee for one issue held \$47 pending construction of the projects to be financed with the issue of bonds in 2012 which is reported in the consolidated balance sheet as funds restricted for construction activity.

The weighted average cost of long-term debt at December 31, 2014 and 2013 was 4.65% and 5.00%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2014 and 2013 was 4.85% and 5.00%, respectively.

The Company has a five-year \$150,000 unsecured revolving credit facility with three banks that expires in March 2017. In August 2014, this facility was increased to \$200,000. Included within this facility is a \$15,000 sublimit for daily demand loans. Funds borrowed under this facility are classified as long-term debt and are used to provide working capital as well as support for letters of credit for insurance policies and other financing arrangements. As of December 31, 2014, the Company has the following sublimits and available capacity under the credit facility: \$50,000 letter of credit sublimit, \$28,383 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, and \$72,000 of funds borrowed under the agreement. Interest under this facility is based at the Company's option, on

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the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. A facility fee is charged on the total commitment amount of the agreement. Under this facility the average cost of borrowings was 0.78% and 0.83%, and the average borrowing was \$67,916 and \$26,954, during 2014 and 2013, respectively.

The Company is obligated to comply with covenants under some of its loan and debt agreements. These covenants contain a number of restrictive financial covenants, which among other things limit, subject to specific exceptions, the Company's ratio of consolidated total indebtedness to consolidated total capitalization, and require a minimum level of earnings coverage over interest expense. During 2014, the Company was in compliance with its debt covenants under its credit facilities. Failure to comply with the Company's debt covenants could result in an event of default, which could result in the Company being required to repay or finance its borrowings before their due date, possibly limiting the Company's future borrowings, and increasing its borrowing costs.

Loans Payable – In November 2014, Aqua Pennsylvania renewed its \$100,000 364-day unsecured revolving credit facility with four banks. The funds borrowed under this agreement are classified as loans payable and used to provide working capital. As of December 31, 2014 and 2013, funds borrowed under the agreement were \$13,658 and \$30,000, respectively. Interest under this facility is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts short-term borrowings of Aqua Pennsylvania. A commitment fee of 0.05% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 0.81% and 0.89%, and the average borrowing was \$24,072 and \$75,621, during 2014 and 2013, respectively. The maximum amount outstanding at the end of any one month was \$36,943 and \$96,103 in 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company had other combined short-term lines of credit of \$60,500. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. As of December 31, 2014 and 2013, funds borrowed under the short-term lines of credit were \$4,740 and \$6,740, respectively. The average borrowing under the lines was \$5,657 and \$11,531 during 2014 and 2013, respectively. The maximum amount outstanding at the end of any one month was \$13,740 and \$17,081 in 2014 and 2013, respectively. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2014 and 2013 was 1.00% and 1.67%, respectively.

Interest Income and Expense– Interest income of \$316, \$438, and \$372 was netted against interest expense on the consolidated statement of net income for the years ended December 31, 2014, 2013, and 2012, respectively. The total interest cost was \$76,713, \$77,754, and \$78,129 in 2014, 2013, and 2012, including amounts capitalized of \$5,134, \$2,275, and \$4,142, respectively.

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Note 11 – Fair Value of Financial Instruments

Financial instruments are recorded at carrying value in the financial statements and approximate fair value as of the dates presented. The fair value of these instruments is disclosed below in accordance with current accounting guidance related to financial instruments.

The fair value of funds restricted for construction activity and loans payable are determined based on their carrying amount and utilizing level 1 methods and assumptions. As of December 31, 2014 and 2013, the carrying amount of the Company's funds restricted for construction activity was \$47, respectively, which equates to their estimated fair value. As of December 31, 2014 and 2013, the carrying amount of the Company's loans payable was \$18,398 and \$36,740, respectively, which equates to their estimated fair value. The fair value of cash and cash equivalents, which is comprised of a money market fund, is determined based on the net asset value per unit utilizing level 2 methods and assumptions. As of December 31, 2014 and 2013, the carrying amounts of the Company's cash and cash equivalents were \$4,138 and \$5,058, which equates to their fair value.

The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2014	2013
Carrying amount	\$ 1,619,270	\$ 1,554,871
Estimated fair value	1,694,424	1,540,296

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration utilizing level 2 methods and assumptions. The Company's customers' advances for construction have a carrying value of \$78,301 and \$73,892 at December 31, 2014 and 2013, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2024 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Note 12 – Stockholders' Equity

At December 31, 2014, the Company had 300,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding and treasury shares held were as follows:

	December 31,		
	2014	2013	2012
Shares outstanding	176,753,270	176,750,599	175,209,082
Treasury shares	1,837,984	1,178,323	776,355

At December 31, 2014, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

In February 2012, the Company renewed its universal shelf registration, which had expired in December 2011, through a filing with the Securities and Exchange Commission ("SEC") to allow for the potential future sale by the Company, from time to time, in one or more public offerings, of an indeterminate amount of our common stock, preferred stock, debt securities and other securities specified therein at indeterminate prices.

The Company has a shelf registration statement filed with the SEC to permit the offering from time to time of shares of common stock and shares of preferred stock in connection with acquisitions. The balance remaining available for use under the acquisition shelf registration as of December 31, 2014 is 1,904,487 shares. The form and terms of any securities issued under these shelf registration statements will be determined at the time of issuance.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase shares of common stock at a five percent discount from the current market value. In August

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2014, we renewed the Plan through a filing with the SEC. Under the direct stock purchase program, shares are purchased by investors at market price. The shares issued under the Plan are either shares purchased by the Company's transfer agent in the open-market or original issue shares. In 2014 and 2013, 558,317 and 154,900 shares of the Company were purchased under the dividend reinvestment portion of the Plan by the Company's transfer agent in the open-market for \$14,148 and \$3,693, respectively. During 2013 and 2012, under the dividend reinvestment portion of the Plan, 432,894 and 711,740 original issue shares of common stock were sold providing the Company with proceeds of \$10,107 and \$12,921, respectively. During 2014, to minimize share dilution, the Company did not sell original issue shares of common stock under the Plan.

In October 2013, the Company's Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 685,348 shares of its common stock in the open market or through privately negotiated transactions. This authorization renewed the number of shares that had remained, when affected for stock splits, from an existing share buy-back authorization from 1997. The specific timing, amount and other terms of repurchases will depend on market conditions, regulatory requirements and other factors. In 2014 we repurchased 560,000 share of our common stock in the open market for \$13,280. In December 2014, the Company's Board of Directors authorized a share buyback program, commencing in 2015, of up to 1,000,000 shares to minimize share dilution through timely and orderly share repurchases. As of December 31, 2014, an aggregate of 1,125,348 shares remain available for repurchase, which includes 125,348 of shares authorized for repurchase from a previous repurchase authorization.

The Company's accumulated other comprehensive income is reported in the stockholders' equity section of the consolidated balance sheets, the consolidated statements of equity, and the related components of other comprehensive income are reported in the consolidated statements of comprehensive income. The Company reports its unrealized gains or losses on investments as other comprehensive income and accumulated other comprehensive income. The Company recorded a regulatory asset for its underfunded status of its pension and other post-retirement benefit plans that would otherwise be charged to other comprehensive income, as it anticipates recovery of its costs through customer rates.

Note 13 – Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock-based compensation is included in the computation of diluted net income per share. The dilutive effect of stock-based compensation is calculated using the treasury stock method and expected proceeds upon exercise or issuance of the stock-based compensation. The following table summarizes the shares, in thousands, used in computing basic and diluted net income per share:

	Years ended December 31,		
	2014	2013	2012
Average common shares outstanding during the period for basic computation	176,864	176,140	174,201
Effect of dilutive securities:			
Employee stock-based compensation	899	674	717
Average common shares outstanding during the period for diluted computation	177,763	176,814	174,918

For the years ended December 31, 2014 and 2013, all of the Company's employee stock options were included in the calculation of diluted net income per share as the calculated cost to exercise the stock options was less than the average market price of the Company's common stock during this period.

For the year ended December 31, 2012, employee stock options to purchase 534,315 shares of common stock were excluded from the calculations of diluted net income per share as the calculated proceeds from the options' exercise were greater than the average market price of the Company's common stock during these periods.

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Equity per common share was \$9.37 and \$8.68 and at December 31, 2014 and 2013, respectively. These amounts were computed by dividing Aqua America stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Note 14 – Employee Stock and Incentive Plan

Under the Company's 2009 Omnibus Equity Compensation Plan, as amended as of February 27, 2014, (the "2009 Plan"), as approved by the Company's shareholders to replace the 2004 Equity Compensation Plan (the "2004 Plan"), stock options, stock units, stock awards, stock appreciation rights, dividend equivalents, and other stock-based awards may be granted to employees, non-employee directors, and consultants and advisors. The 2009 Plan authorizes 6,250,000 shares for issuance under the plan. A maximum of 3,125,000 shares under the 2009 Plan may be issued pursuant to stock award, stock units and other stock-based awards, subject to adjustment as provided in the 2009 Plan. During any calendar year, no individual may be granted (i) stock options and stock appreciation rights under the 2009 Plan for more than 500,000 shares of common stock in the aggregate or (ii) stock awards, stock units or other stock-based awards under the 2009 Plan for more than 500,000 shares of Company stock in the aggregate, subject to adjustment as provided in the 2009 Plan. Awards under the 2009 Plan are made by a committee of the Board of Directors, or in the case of awards to non-employee directors, by the Board of Directors of the Company. At December 31, 2014, 4,415,658 shares underlying stock-based compensation awards were still available for grant under the 2009 Plan. No further grants may be made under the 2004 plan.

The recording of compensation expense for share-based compensation has no impact on net cash flows and results in the reclassification on the consolidated cash flow statements of related tax benefits from cash flows from operating activities to cash flows from financing activities to the extent these tax benefits exceed the associated compensation cost.

Performance Share Units – During 2014, 2013, and 2012, the Company granted performance share units. A performance share unit ("PSU") represents the right to receive a share of the Company's common stock if specified performance goals are met over the three year performance period specified in the grant, subject to exceptions through the respective vesting periods, generally three years. Each grantee is granted a target award of PSUs, and may earn between 0% and 200% of the target amount depending on the Company's performance against the performance goals, which consist of the following metrics for the 2012 grant: 25% of the PSUs will be earned based on the Company's total shareholder return ("TSR") compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 25% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), and 50% of the PSUs will be earned based on the Company's three-year compound annual growth rate ("CAGR") in earnings per share ("EPS") compared to a target EPS CAGR of 5% (a performance-based condition), and for the 2014 and 2013 grants: 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for a specific peer group of six other investor-owned water companies (a market-based condition), 30% of the PSUs will be earned based on the Company's TSR compared to the TSR for the companies listed in the Standard and Poor's Midcap Utilities Index (a market-based condition), 20% of the PSUs will be earned based on maintaining an average ratio of operations and maintenance expenses as a percentage of revenues at Aqua Pennsylvania compared to a target average ratio for the three year performance period (a performance-based condition), and 20% of the PSUs will be earned based on earning a cumulative total earnings before taxes for the Company operations other than Aqua Pennsylvania for the three year performance period compared to a target (a performance-based condition).

The following table provides compensation costs for PSU:

	Years ended December 31,		
	2014	2013	2012
Stock-based compensation within operations and maintenance expense	\$ 4,996	\$ 3,437	\$ 2,536
Income tax benefit	2,044	1,400	1,033

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The following table summarizes nonvested PSU transactions for the year ended December 31, 2014:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	528,092	\$ 21.25
Granted	143,630	25.31
Performance criteria adjustment	81,148	22.26
Forfeited	(14,078)	23.53
Share units vested in prior period and issued in current period	18,000	19.51
Share units issued	(174,148)	18.93
Nonvested share units at end of period	582,644	\$ 22.98

A portion of the fair value of PSUs was estimated at the grant date based on the probability of satisfying the market-based conditions associated with the PSUs using the Monte Carlo valuation method, which assess probabilities of various outcomes of market conditions. The other portion of the fair value of the PSUs associated with performance-based conditions was based on the fair market value of the Company's stock at the grant date, regardless of whether the market-based condition is satisfied. The fair value of each PSU grant is amortized into compensation expense on a straight-line basis over their respective vesting periods, generally 36 months. The accrual of compensation costs is based on an estimate of the final expected value of the award, and is adjusted as required for the portion based on the performance-based condition. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the PSUs includes dividend equivalents, no separate dividend yield assumption is required in calculating the fair value of the PSUs. The recording of compensation expense for PSUs has no impact on net cash flows. The following table provides the assumptions used in the pricing model for the grant and the resulting grant date fair value of PSUs:

	Years ended December 31,		
	2014	2013	2012
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	0.68%	0.36%	0.43%
Expected volatility	19.8%	20.0%	22.1%
Weighted average fair value of PSUs granted	\$ 25.31	\$ 26.88	\$ 19.11

As of December 31, 2014, \$4,758 of unrecognized compensation costs related to PSUs is expected to be recognized over a weighted average period of approximately 1.6 years. The intrinsic value of vested PSUs for the years ended December 31, 2014 and 2013 was \$4,327 and \$415. The fair value of vested PSUs for the years ended December 31, 2014 and 2013 was \$3,297 and \$351. The aggregate intrinsic value of PSUs as of December 31, 2014 was \$15,557. The aggregate intrinsic value of PSUs is based on the number of nonvested share units and the market value of the Company's common stock as of the period end date.

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Restricted Stock Units – A restricted stock unit (“RSU”) represents the right to receive a share of the Company’s common stock and is valued based on the fair market value of the Company’s stock on the date of grant. RSUs are eligible to be earned at the end of a specified restricted period, generally three years, beginning on the date of grant. In some cases, the right to receive the shares is subject to specific performance goals established at the time the grant is made. The Company assumes that forfeitures will be minimal, and recognizes forfeitures as they occur, which results in a reduction in compensation expense. As the payout of the RSUs includes dividend equivalent, no separate dividend yield assumption is required in calculating the fair value of the RSUs. The following table provides compensation costs for RSUs:

	Years ended December 31,		
	2014	2013	2012
Stock-based compensation within operations and maintenance expense	\$ 1,122	\$ 813	\$ 634
Income tax benefit	464	336	262

The following table summarizes nonvested RSU transactions for the year ended December 31, 2014:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	112,666	\$ 20.16
Granted	41,150	24.80
Stock units vested but not paid	(5,750)	17.99
Stock units vested and paid	(24,772)	17.77
Forfeited	(729)	21.77
Nonvested stock units at end of period	122,565	\$ 22.29

The following table summarizes the value of RSUs:

	Years ended December 31,		
	2014	2013	2012
Weighted average fair value of RSUs granted	\$ 24.80	\$ 23.28	\$ 17.99

As of December 31, 2014, \$953 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.5 years. The intrinsic value of vested RSUs for the years ended December 31, 2014 and 2013 was \$759 and \$449. The fair value of vested RSUs for the years ended December 31, 2014 and 2013 was \$544 and \$348. The aggregate intrinsic value of RSUs as of December 31, 2014 was \$3,272. The aggregate intrinsic value of RSUs is based on the number of nonvested stock units and the market value of the Company’s common stock as of the period end date.

Stock Options – The following table provides compensation costs for stock options:

	Years ended December 31,		
	2014	2013	2012
Stock-based compensation within operations and maintenance expense	\$ -	\$ 30	\$ 612
Income tax benefit	189	461	580

There were no stock options granted during the years ended December 31, 2014, 2013, and 2012.

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Options under the plans were issued at the closing market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The fair value of options was estimated at the grant date using the Black-Scholes option-pricing model, which relies on assumptions that require management's judgment.

The following table summarizes stock option transactions for the year ended December 31, 2014:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
Outstanding, beginning of year	1,538,110	\$ 16.82		
Granted	-	-		
Forfeited	-	-		
Expired	(3,706)	17.87		
Exercised	(449,412)	16.23		
Outstanding and exercisable at end of year	1,084,992	\$ 17.06	3.0	\$ 10,457

The intrinsic value of stock options is the amount by which the market price of the stock on a given date, such as at the end of the period or on the day of exercise, exceeded the closing market price of stock on the date of grant. The following table summarizes the aggregate intrinsic value of stock options exercised and the fair value of stock options which became vested:

	Years ended December 31,		
	2014	2013	2012
Intrinsic value of options exercised	\$ 4,054	\$ 12,658	\$ 5,547
Fair value of options vested	-	500	1,318

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The following table summarizes information about the options outstanding and options exercisable as of December 31, 2014:

Options Outstanding and Exercisable			
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
\$13.00 - 14.99	327,471	3.1	\$ 13.98
\$15.00 - 15.99	215,674	4.1	15.30
\$16.00 - 16.99	178,298	3.1	16.15
\$17.00 - 19.99	164,316	2.1	18.61
\$20.00 - 23.99	199,233	1.2	23.57
	1,084,992	3.0	\$ 17.06

As of December 31, 2014, there was \$0 of total unrecognized compensation cost related to nonvested stock options granted under the plans.

Restricted Stock – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The Company expects forfeitures of restricted stock to be de minimis.

The following table provides compensation costs for restricted stock:

	Years ended December 31,		
	2014	2013	2012
Stock-based compensation within operations and maintenance expense	\$ 691	\$ 770	\$ 1,737
Income tax benefit	287	320	720

The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2014:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	62,500	\$ 17.70
Granted	14,000	25.19
Vested	(45,250)	20.02
Forfeited	-	-
Nonvested shares at end of period	31,250	\$ 17.70

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The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2014	2013	2012
Intrinsic value of restricted stock awards vested	\$ 1,097	\$ 2,236	\$ 2,384
Fair value of restricted stock awards vested	906	1,560	1,971
Weighted average fair value of restricted stock awards granted	25.19	25.09	18.47

As of December 31, 2014, there was \$29 of unrecognized compensation costs related to nonvested restricted stock. The aggregate intrinsic value of restricted stock as of December 31, 2014 was \$834. The aggregate intrinsic value of restricted stock is based on the number of nonvested shares of restricted stock and the market value of the Company's common stock as of the period end date.

Note 15 – Pension Plans and Other Post-retirement Benefits

The Company maintains a qualified, defined benefit pension plan that covers its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations over time. To offset some limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Supplemental Pension Benefit Plan for Salaried Employees in order to prevent some employees from being penalized by these limitations, and to provide certain retirement benefits based on employee's years of service and compensation. The Company also has non-qualified Supplemental Executive Retirement Plans for some current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In August 2014, the Company announced changes to the way it will provide future retirement benefits to employees acquired through a prior acquisition. Effective January 1, 2015, the Company will provide future retirement benefits for these employees through its defined contribution plan. As a result, no further service will be considered in future accruals in the qualified defined benefit pension plan after December 31, 2014, and as a result of this change, the Company recognized a curtailment loss of \$84 in 2014.

In the first quarter of 2014, the Company offered a one-time voluntary lump sum window to certain eligible terminated vested participants in an effort to reduce its long-term obligations and plan volatility for its qualified defined benefit pension plan. In May 2014, the plan paid \$11,471 to participants who elected to receive a lump sum distribution, which was funded from existing plan assets. These payments are reported as a portion of benefits paid for 2014 in the change in benefit obligation for Pension Benefits.

In addition to providing pension benefits, the Company offers Post-retirement Benefits other than Pensions to employees hired before April 1, 2003 and retiring with a minimum level of service. These benefits include continuation of medical and prescription drug benefits, or a cash contribution toward such benefits, for eligible retirees and life insurance benefits for eligible retirees. The Company funds these benefits through various trust accounts. The benefits of retired officers and other eligible retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years indicated:

Years:	Pension Benefits	Other Post-retirement Benefits
2015	\$ 17,006	\$ 1,762
2016	12,998	2,048
2017	13,792	2,341
2018	14,626	2,665
2019	15,405	2,914
2020-2024	87,787	17,855

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 281,161	\$ 303,077	\$ 57,174	\$ 63,033
Service cost	4,295	5,313	1,161	1,525
Interest cost	14,153	12,660	2,903	2,579
Actuarial loss (gain)	43,250	(30,223)	11,769	(9,024)
Plan participants' contributions	-	-	217	190
Benefits paid	(22,600)	(10,332)	(1,311)	(1,129)
Plan amendments	-	666	45	-
Curtailement	(8,650)	-	-	-
Benefit obligation at December 31,	311,609	281,161	71,958	57,174
Change in plan assets:				
Fair value of plan assets at January 1,	232,347	190,084	40,840	34,054
Actual return on plan assets	17,148	36,517	3,175	5,800
Employer contributions	18,002	16,078	300	1,913
Benefits paid	(22,600)	(10,332)	(989)	(927)
Fair value of plan assets at December 31,	244,897	232,347	43,326	40,840
Funded status of plan:				
Net amount recognized at December 31,	\$ 66,712	\$ 48,814	\$ 28,632	\$ 16,334

The Company's pension plans had an accumulated benefit obligation of \$293,364 and \$246,843 at December 31, 2014 and 2013, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31;

	Pension Benefits		Other Post-retirement Benefits	
	2014	2013	2014	2013
Current liability	\$ 4,930	\$ 366	\$ -	\$ -
Noncurrent liability	61,782	48,448	28,632	16,334
Net liability recognized	\$ 66,712	\$ 48,814	\$ 28,632	\$ 16,334

At December 31, 2014 and 2013, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December 31;

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets			
	2014		2013	
Projected benefit obligation	\$	311,609	\$	281,161
Fair value of plan assets		244,897		232,347

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets			
	2014		2013	
Accumulated benefit obligation	\$	293,364	\$	246,843
Fair value of plan assets		244,897		232,347

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2014	2013	2012	2014	2013	2012
Service cost	\$ 4,295	\$ 5,313	\$ 4,920	\$ 1,161	\$ 1,525	\$ 1,309
Interest cost	14,153	12,660	12,728	2,903	2,579	2,482
Expected return on plan assets	(17,601)	(14,770)	(13,588)	(2,742)	(2,268)	(1,950)
Amortization of prior service cost	277	228	277	(278)	(295)	(299)
Amortization of actuarial loss	2,256	8,169	6,568	260	1,479	1,024
Amortization of regulatory asset	-	-	-	-	-	69
Settlement loss	-	-	304	-	-	90
Curtailement loss	84	-	-	-	-	-
Net periodic benefit cost	\$ 3,464	\$ 11,600	\$ 11,209	\$ 1,304	\$ 3,020	\$ 2,725

The Company records the underfunded status of its pension and other post-retirement benefit plans on its consolidated balance sheets and records a regulatory asset for these costs that would otherwise be charged to stockholders' equity, as the Company anticipates recoverability of the costs through customer rates. The Company's pension and other post-retirement benefit plans were underfunded at December 31, 2014 and 2013. Changes in the plans' funded status will affect the assets and liabilities recorded on the balance sheet. Due to the Company's regulatory treatment, the recognition of the funded status is recorded as a regulatory asset pursuant to the FASB's accounting guidance for regulated operations.

The following table provides the amounts recognized in regulatory assets that have not been recognized as components of net periodic benefit cost as of December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2014	2013	2014	2013
Net actuarial loss	\$ 79,639	\$ 46,843	\$ 18,356	\$ 7,280
Prior service cost (credit)	1,374	1,734	(359)	(682)
Total recognized in regulatory assets	\$ 81,013	\$ 48,577	\$ 17,997	\$ 6,598

The estimated net actuarial loss, prior service cost, and transition asset for the Company's pension plans that will be amortized in 2015 from the regulatory assets into net periodic benefit cost are \$6,127, \$174, and \$0, respectively. The estimated net actuarial loss, prior service credit, and transition obligation for the Company's other post-retirement benefit plans that will be amortized in 2015 from regulatory assets into net periodic benefit cost are \$1,415, \$217, and \$0, respectively.

Accounting for pensions and other post-retirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other post-retirement benefit expense that the Company recognizes.

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2014	2013	2014	2013
Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	4.20%	5.12%	4.17%	5.12%
Rate of compensation increase	3.0-4.0%	4.0-4.5%	3.00%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	7.0%	7.5%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2019	2019

n/a – Assumption is not applicable to pension benefits.

The significant assumptions related to the Company's net periodic benefit costs are as follows:

	Pension Benefits			Other Post-retirement Benefits		
	2014	2013	2012	2014	2013	2012
Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Discount rate	5.12%	4.17%	5.00%	5.12%	4.17%	5.00%
Expected return on plan assets	7.50%	7.50%	7.75%	5.00-7.50%	5.00-7.50%	5.17-7.75%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0-4.5%	4.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,						
Health care cost trend rate	n/a	n/a	n/a	7.5%	8.0%	8.5%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	n/a	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	n/a	n/a	n/a	2019	2019	2019

n/a – Assumption is not applicable to pension benefits.

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Assumed health-care trend rates have a significant effect on the expense and liabilities for other post-retirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed health-care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on the health-care component of the accrued other post-retirement benefit obligation	\$ 5,147	\$ (4,791)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	\$ 290	\$ (284)

The Company's discount rate assumption, which is utilized to calculate the present value of the projected benefit payments of our post-retirement benefits, was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to match the projected benefit payments of the plans. The selected bond portfolio was derived from a universe of Aa-graded corporate bonds, all of which were noncallable (or callable with make-whole provisions), and have at least \$50,000 in outstanding value. The discount rate was then developed as the rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced.

The Company's expected return on plan assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's market related value of plan assets is equal to the fair value of the plan's assets as of the last day of its fiscal year, and is a determinant for the expected return on plan assets which is a component of post-retirement benefits expense. The Company's pension expense increases as the expected return on plan assets decreases. For 2014, the Company used a 7.50% expected return on plan assets assumption which will remain unchanged for 2015. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Barclays Capital Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset class are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
		2014	2013
Domestic equities	25 to 75%	64%	65%
International equities	0 to 10%	6%	7%
Fixed income	25 to 50%	25%	24%
Alternative investments	0 to 5%	3%	1%
Cash and cash equivalents	0 to 20%	2%	3%
Total	100%	100%	100%

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The fair value of the Company's pension plans' assets at December 31, 2014 by asset class are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic equities: (1)				
Common stocks	\$ 151,402	\$ 151,402	\$ -	\$ -
Mutual funds	4,168	4,168	-	-
International equities (2)	14,584	14,584	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	25,150	-	25,150	-
Corporate and foreign bonds	13,716	-	13,716	-
Mutual funds	21,405	21,405	-	-
Alternative investments: (4)				
Real estate	6,215	6,215	-	-
Commodity funds	1,203	1,203	-	-
Cash and cash equivalents (5)	7,054	-	7,054	-
Total pension assets	<u>\$ 244,897</u>	<u>\$ 198,977</u>	<u>\$ 45,920</u>	<u>\$ -</u>

The fair value of the Company's pension plans' assets at December 31, 2013 by asset class are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic equities: (1)				
Common stocks	\$ 149,456	\$ 149,456	\$ -	\$ -
Mutual funds	2,215	2,215	-	-
International equities (2)	16,256	16,256	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	24,750	-	24,750	-
Corporate and foreign bonds	6,459	-	6,459	-
Mutual funds	24,640	24,640	-	-
Alternative investments: (4)				
Real estate	1,950	1,950	-	-
Commodity funds	1,291	1,291	-	-
Cash and cash equivalents (5)	5,330	-	5,330	-
Total pension assets	<u>\$ 232,347</u>	<u>\$ 195,808</u>	<u>\$ 36,539</u>	<u>\$ -</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in equity mutual funds, which invest in stocks, are valued using the net asset value per unit as obtained from quoted market prices from active markets.
- (2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
- (3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in fixed income mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets.
- (4) Alternative investments are comprised of real estate funds, real estate investment trusts, and commodity funds, and are valued using unadjusted quoted prices obtained from active markets.
- (5) Cash and cash equivalents is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Equity securities include Aqua America, Inc. common stock in the amounts of \$17,409 or 7.1% and \$14,983 or 6.5% of total pension plans' assets as of December 31, 2014 and 2013, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

	Target Allocation	Percentage of Plan Assets at December 31,	
		2014	2013
Domestic equities	25 to 75%	57%	58%
International equities	0 to 10%	3%	5%
Fixed income	25 to 50%	25%	24%
Alternative investments	0 to 5%	1%	1%
Cash and cash equivalents	0 to 20%	14%	12%
Total	100%	100%	100%

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2014 by asset class are as follows:

	Total	Level 1	Level 2	Level 3
Domestic equities: (1)				
Common stocks	\$ 12,265	\$ 12,265	\$ -	\$ -
Mutual funds	12,582	12,582	-	-
International equities (2)	1,482	1,482	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	5,678	-	5,678	-
Corporate and foreign bonds	3,822	-	3,822	-
Mutual funds	1,409	1,409	-	-
Alternative investments (4)	204	204	-	-
Cash and cash equivalents (5)	5,884	-	5,884	-
Total other post-retirement assets	\$ 43,326	\$ 27,942	\$ 15,384	\$ -

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2013 by asset class are as follows:

	Total	Level 1	Level 2	Level 3
Domestic equities: (1)				
Common stocks	\$ 12,811	\$ 12,811	\$ -	\$ -
Mutual funds	10,977	10,977	-	-
International equities (2)	2,061	2,061	-	-
Fixed income: (3)				
U.S. Treasury and government agency bonds	4,679	-	4,679	-
Corporate and foreign bonds	3,933	-	3,933	-
Mutual funds	1,393	1,393	-	-
Alternative investments (4)	162	162	-	-
Cash and cash equivalents (5)	4,824	-	4,824	-
Total other post-retirement assets	<u>\$ 40,840</u>	<u>\$ 27,404</u>	<u>\$ 13,436</u>	<u>\$ -</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in equity mutual funds, which invest in stocks, are valued using the net asset value per unit as obtained from quoted market prices from active markets.
- (2) Investments in international equities are valued using unadjusted quoted prices obtained from active markets.
- (3) Investments in U.S. Treasury and government agency bonds and corporate and foreign bonds are valued by a pricing service which utilizes pricing models that incorporate available trade, bid, and other market information to value the fixed income securities. Investments in fixed income mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets.
- (4) Investments in alternative investments are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets.
- (5) Cash and cash equivalents is comprised of money market funds, which are valued utilizing the net asset value per unit based on the fair value of the underlying assets as determined by the fund's investment managers.

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules and the Company's funding policy, during 2015 our pension contribution is expected to be approximately \$13,756.

The Company has a 401(k) savings plan, which is a defined contribution plan and covers substantially all employees. The Company makes matching contributions that are initially invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to specific limitations. Participants may diversify their Company matching account balances into other investments offered under the 401(k) savings plan. The Company's matching contribution and annual profit-sharing contribution, recorded as compensation expense, was \$3,051, \$2,790, and \$2,741, for the years ended December 31, 2014, 2013, and 2012, respectively.

Note 16 – Water and Wastewater Rates

On June 7, 2012, the Pennsylvania Public Utility Commission granted Aqua Pennsylvania a water rate increase designed to increase total operating revenues by \$16,700, on an annualized basis. The rates in effect at the time of the filing included \$27,449 in surcharges for replacing and rehabilitating infrastructure systems or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase and this surcharge was reset to zero. In addition, the rate order provides for a reduction in current income tax expense as a result of the recognition of qualifying income tax benefits if the Company changes its tax accounting method to permit the expensing of qualifying utility asset improvement costs that were previously being capitalized and depreciated for tax purposes. In December 2012, Aqua Pennsylvania implemented this change which resulted in the net recognition of 2012 income tax benefits of \$33,565 which reduced the Company's current income tax expense and increased net income in the fourth quarter of 2012. In addition, the Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012, and, based on the rate order, in 2013, the

AQUA AMERICA, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Company began to amortize 1/10th of these capital expenditures. In accordance with the rate order, the amortization is expected to reduce current income tax expense during periods when qualifying parameters are met. Beginning in 2013, the Company amortized 1/10th of the qualifying capital expenditures made prior to 2012 and recognized \$16,734, annually, of deferred income tax benefits, which reduced current income tax expense and increased the Company's net income. As a result of this change, the fourth quarter 2012 surcharge for replacing and rehabilitating infrastructure systems of 2.82% for Aqua Pennsylvania's water customers was reset to zero beginning January 1, 2013, and Aqua Pennsylvania did not file a water base rate case or this surcharge in 2014 or 2013.

The Company's operating subsidiaries, excluding the 2012 Pennsylvania water award discussed above, were allowed annual rate increases of \$9,886 in 2014, \$9,431 in 2013, and \$17,923 in 2012, represented by twelve, six, and nine rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$5,375, \$8,169, and \$13,754 in 2014, 2013, and 2012, respectively.

Six states in which the Company operates permit water utilities, and in five states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio, Indiana, New Jersey, and North Carolina allow for the use of this surcharge. On December 22, 2014, the North Carolina Utilities Commission granted the first infrastructure surcharge for Aqua North Carolina. The Attorney General has filed an appeal to the State Supreme Court challenging the approval. The surcharge for infrastructure system replacements and rehabilitations is typically adjusted periodically based on additional qualified capital expenditures completed or anticipated in a future period, is capped as a percentage of base rates, generally at 5% to 12.75%, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. The surcharge for infrastructure system replacements and rehabilitations provided revenues in 2014, 2013, and 2012 of \$4,598, \$3,205, and \$15,911, respectively.

Note 17 – Segment Information

The Company has ten operating segments and one reportable segment. The Regulated segment, the Company's single reportable segment, is comprised of eight operating segments representing our water and wastewater regulated utility companies which are organized by the states where we provide water and wastewater services. These operating segments are aggregated into one reportable segment since each of these operating segments has the following similarities: economic characteristics, nature of services, production processes, customers, water distribution or wastewater collection methods, and the nature of the regulatory environment.

Two operating segments are included within the Other category below. These segments are not quantitatively significant and are comprised of Aqua Resources and Aqua Infrastructure. In addition to these segments, Other is comprised of other business activities not included in the reportable segment, including corporate costs that have not been allocated to the Regulated segment and intersegment eliminations. Corporate costs include general and administrative expenses, and interest expense.

Selected Quarterly Financial Data (Unaudited)

Aqua America, Inc. and Subsidiaries

(In thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2014					
Operating revenues	\$ 182,672	\$ 195,307	\$ 210,535	\$ 191,389	\$ 779,903
Operations and maintenance expense	71,686	70,375	72,374	74,121	288,556
Operating income	66,770	79,934	95,058	72,597	314,359
Income from continuing operations	42,401	54,818	67,711	48,954	213,884
Income from discontinued operations	458	751	285	17,861	19,355
Net income attributable to common shareholders	42,859	55,569	67,996	66,815	233,239
Basic income from continuing operations per common share	0.24	0.31	0.38	0.28	1.21
Diluted income from continuing operations per common share	0.24	0.31	0.38	0.28	1.20
Basic income from discontinued operations per common share	0.00	0.00	0.00	0.10	0.11
Diluted income from discontinued operations per common share	0.00	0.00	0.00	0.10	0.11
Basic net income per common share	0.24	0.31	0.38	0.38	1.32
Diluted net income per common share	0.24	0.31	0.38	0.38	1.31
Dividend paid per common share	0.152	0.152	0.165	0.165	0.634
Dividend declared per common share	0.152	0.152	0.165	0.165	0.634
Price range of common stock:					
- high	25.56	26.27	26.29	28.22	28.22
- low	22.40	24.25	23.12	23.26	22.40
2013					
Operating revenues	\$ 178,552	\$ 193,943	\$ 202,320	\$ 187,078	\$ 761,893
Operations and maintenance expense	67,794	70,412	71,631	73,724	283,561
Operating income	66,938	79,750	86,140	68,834	301,662
Income from continuing operations	40,864	53,004	62,749	46,254	202,871
Income from discontinued operations	5,701	582	868	11,278	18,429
Net income attributable to common shareholders	46,565	53,586	63,617	57,532	221,300
Basic income from continuing operations per common share	0.23	0.30	0.36	0.26	1.15
Diluted income from continuing operations per common share	0.23	0.30	0.35	0.26	1.15
Basic income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.10
Diluted income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.10
Basic net income per common share	0.27	0.30	0.36	0.33	1.26
Diluted net income per common share	0.26	0.30	0.36	0.32	1.25
Dividend paid per common share	0.140	0.140	0.152	0.152	0.584
Dividend declared per common share	0.140	0.292	-	0.152	0.584
Price range of common stock:					
- high	25.17	26.62	28.12	25.78	28.12
- low	20.61	23.52	24.01	22.69	20.61

High and low prices of the Company's common stock are as reported on the New York Stock Exchange. The cash dividend paid in September 2013 of \$0.152 was declared in May 2013.

Summary of Selected Financial Data (Unaudited)

Aqua America, Inc. and Subsidiaries

(In thousands of dollars, except per share amounts)

Years ended December 31,	2014	2013	2012	2011	2010
PER COMMON SHARE:					
Income from continuing operations:					
Basic	\$ 1.21	\$ 1.15	\$ 1.04	\$ 0.81	\$ 0.67
Diluted	1.20	1.15	1.04	0.81	0.67
Income from discontinued operations:					
Basic	0.11	0.10	0.08	0.02	0.06
Diluted	0.11	0.10	0.08	0.02	0.06
Net income:					
Basic	1.32	1.26	1.13	0.83	0.72
Diluted	1.31	1.25	1.12	0.83	0.72
Cash dividends declared and paid	0.63	0.58	0.54	0.50	0.47
Return on Aqua America stockholders' equity	14.1%	14.4%	14.2%	11.4%	10.6%
Book value at year end	\$ 9.37	\$ 8.68	\$ 7.91	\$ 7.21	\$ 6.82
Market value at year end	26.70	23.59	20.34	17.64	17.98
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	\$ 779,903	\$ 761,893	\$ 750,685	\$ 680,677	\$ 653,812
Depreciation and amortization	126,535	123,985	116,180	107,463	110,998
Interest expense, net (1)	71,263	75,041	73,615	70,658	68,613
Income from continuing operations before income taxes	239,103	224,104	247,057	207,265	187,930
Provision for income taxes	25,219	21,233	65,220	67,590	73,521
Income from continuing operations	213,884	202,871	181,837	139,675	114,409
Income from discontinued operations	19,355	18,429	14,726	3,394	9,566
Net income attributable to common shareholders	233,239	221,300	196,563	143,069	123,975
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$ 5,406,752	\$ 5,051,817	\$ 4,858,517	\$ 4,348,420	\$ 4,072,466
Property, plant and equipment, net	4,401,990	4,138,568	3,907,552	3,502,968	3,249,740
Aqua America stockholders' equity	1,655,343	1,534,835	1,385,704	1,251,313	1,174,254
Long-term debt, including current portion	1,619,270	1,554,871	1,588,992	1,475,886	1,519,457
Total debt	1,637,668	1,591,611	1,669,375	1,583,657	1,609,125
ADDITIONAL INFORMATION:					
Operating cash flows from continuing operations	\$ 364,888	\$ 365,409	\$ 375,823	\$ 349,927	\$ 242,457
Capital additions	328,605	307,908	347,098	324,360	306,216
Net cash expended for acquisitions of utility systems and other	14,616	14,997	121,248	8,515	8,625
Dividends on common stock	112,106	102,889	93,423	87,133	80,907
Number of utility customers served (2)	940,119	928,200	917,986	848,336	845,042
Number of shareholders of common stock	25,780	25,833	26,216	26,744	27,274
Common shares outstanding (000)	176,753	176,751	175,209	173,519	172,219
Employees (full-time) (2)	1,617	1,542	1,556	1,464	1,480

(1) Net of allowance for funds used during construction and interest income.

(2) Reflects continuing operations.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2014:

Aqua Pennsylvania, Inc. (Pennsylvania)
Aqua Resources, Inc. (Delaware)
Aqua Services, Inc. (Pennsylvania)
Aqua Infrastructure, LLC (Pennsylvania)
Aqua Ohio, Inc. (Ohio)
Aqua Illinois, Inc. (Illinois)
Aqua New Jersey, Inc. (New Jersey)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Virginia, Inc. (Virginia)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-179743, and 333-197805), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 033-52557, 033-53689, 333-26613, 333-70859, 333-81085, 333-61768, 333-107673, 333-113502, 333-116776, 333-126042, 333-148206, 333-156047, 333-159897, and 333-181389) of Aqua America, Inc. of our report dated February 27, 2015 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

February 27, 2015

CERTIFICATION OF CHIEF EXECUTIVE OFFICER, PURSUANT TO RULE 13A-14(A) AS
ADOPTED UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, Nicholas DeBenedictis, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
February 27, 2015

CERTIFICATION OF CHIEF FINANCIAL OFFICER, PURSUANT TO RULE 13A-14(A) AS ADOPTED
UNDER THE SECURITIES AND EXCHANGE ACT OF 1934

I, David P. Smeltzer, certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer

February 27, 2015

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2014 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis

Chairman, President and Chief Executive Officer
February 27, 2015

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2014 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David P. Smeltzer

David P. Smeltzer

Executive Vice President and Chief Financial Officer
February 27, 2015
