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

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**FORM 10-K**

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(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, 2013

OR

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

Commission File number 1-6659

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**AQUA AMERICA, INC.**

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(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.

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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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (do not check if smaller reporting company)	Small reporting company	<input type="checkbox"/>

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, 2013: \$4,379,910,212

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, 2013, 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 13, 2014: 176,811,073

#### **DOCUMENTS INCORPORATED BY REFERENCE**

(1) Portions of registrant's 2013 Annual Report to Shareholders for fiscal year ended December 31, 2013 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 7, 2014 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 (“10-K”), or incorporated by reference into this 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 10-K, or incorporated by reference into this 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;
- the impact of federal and/or state tax policies and the regulatory treatment of the effects of those policies;
- the amount of repair tax deductions 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 2013 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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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;
- the determination of what qualifies for a repair expense tax deduction;
- 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 events;
- changes in accounting pronouncements;
- litigation and claims; and
- changes in environmental conditions, including the effects of climate change

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Given these risks and uncertainties, you should not place undue reliance on any forward-looking statements. You should read this 10-K and the documents that we incorporate by reference into this 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 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”) is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost 3 million people concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc. (“Aqua Pennsylvania”), which accounted for approximately 54% of our operating revenues and a larger percentage of our net income for 2013, and as of December 31, 2013, provided water or wastewater services to approximately one-half of the total number of people we serve, and 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, 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 sewer line repair service and protection solutions to households, backflow prevention, construction, and other non-regulated water and wastewater services, and the Company’s non-regulated subsidiary, Aqua Infrastructure, provides non-utility raw water supply services for firms, with which we enter into a water supply contract, 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 has extended our regulated operations from southeastern Pennsylvania to include our current regulated utility operations throughout Pennsylvania and in seven other states.

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 2012, we sold our utility operations in Maine and in New York, 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, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in our portfolio. In 2012, we began to market for sale our Florida utility operations and our wastewater treatment facility in Georgia. The sale of our regulated utility operations in Florida concluded in 2013, and the Company continues to pursue a sale of its Georgia operations. The operating results, cash flows, and financial position of the Company’s Maine, New York, Florida, and Georgia subsidiaries have been presented in the Company’s consolidated financial statements as discontinued operations.

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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 marks an expansion of our growth venture serving the raw water needs of firms, with which we enter into a water supply contract, 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, 2013:

	<u>Operating Revenues (000's)</u>	<u>Operating Revenues (%)</u>
Pennsylvania	\$ 415,781	54.1%
Ohio	90,937	11.8%
Texas	69,167	9.0%
Illinois	49,678	6.5%
North Carolina	45,859	6.0%
Other states (1)	79,855	10.4%
Regulated segment total	751,277	97.8%
Other and eliminations	17,366	2.2%
Consolidated	<u>\$ 768,643</u>	<u>100.0%</u>

(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 2013, 2012, and 2011 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 2013 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K. The information from these sections of our 2013 Annual Report to Shareholders 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, 2013:

	<u>Operating Revenues (000's)</u>	<u>Operating Revenues (%)</u>
Residential water	\$ 463,156	60.3%
Commercial water	121,615	15.8%
Fire protection	28,915	3.8%
Industrial water	25,442	3.3%
Other water	28,784	3.7%
Water	667,912	86.9%
Wastewater	73,062	9.5%
Other utility	10,303	1.3%
Regulated segment total	751,277	97.7%
Other and eliminations	17,366	2.3%
Consolidated	<u>\$ 768,643</u>	<u>100.0%</u>

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 customers make up the largest component of our utility customer base, with these customers representing approximately 71% 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 water use restrictions in the affected areas, which could reduce water consumption. See "Water Supplies, Water Facilities and Wastewater 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.

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. In 2013, 2012, 2011, 2010, and 2009, the utility customer growth rate due to acquisitions and other growth ventures (excluding dispositions) was 1.3%, 7.2%, 1.0%, 1.0%, and 1.0%, respectively. In 2013, our customer count, excluding dispositions, increased by 12,341 customers, primarily due to utility systems that we acquired and natural growth. Overall, for the five-year period of 2009 through 2013, our utility customer base, adjusted to exclude customers associated with utility system dispositions, increased at an annual compound rate of 2.2%.

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### 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 5,000 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 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, 2013, we completed 84 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, and growth opportunities provided by both meeting the needs of industrial facilities and the natural gas drilling industry with a current focus on the raw water needs of drillers.

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### 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 regulatory commissions have generally recognized the operating and capital costs associated with these improvements in setting water 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. In addition, we own several sewer collection systems where the wastewater is treated at a municipally-owned facility. Changes in regulatory requirements can be reflected in revised permit limits and conditions when National Pollution Discharge Elimination System (“NPDES”) 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 regulatory 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 regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The regulatory commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and other financings, and the franchise areas that we serve. 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 regulatory commissions or authorities in the various states in which we operate.

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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 return on the capital 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 regulatory commissions:

<u>State</u>	<u>Regulatory Commission</u>
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
Texas	Texas Commission on Environmental Quality
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

Beginning in September 2014, economic regulatory jurisdiction for the Company's Texas operations will be transferred from the Texas Commission on Environmental Quality to the Texas Public Utility Commission.

Our water and wastewater operations are comprised of 61 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 tariff 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. Seven 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 regulatory 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.

Five states in which we operate water utilities, and three 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 a surcharge mechanism, a water and wastewater utility absorbs 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. The infrastructure rehabilitation surcharge mechanism 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.

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Currently, Pennsylvania, Illinois, Ohio, Indiana, and New Jersey allow for the use of infrastructure rehabilitation surcharges, and in 2013 North Carolina legislators passed a law allowing for an infrastructure rehabilitation surcharge for regulated water and wastewater utilities; as a result, the Company's operating subsidiary in North Carolina has filed a request to implement an infrastructure rehabilitation surcharge for 2014, which is subject to approval by the North Carolina Utilities Commission. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped at 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. In 2013, the infrastructure rehabilitation surcharge was suspended for Aqua Pennsylvania's water customers as a result of the implementation of the repair tax accounting change discussed below. Infrastructure rehabilitation surcharges provided revenues of \$3,205,000 in 2013, \$15,911,000 in 2012, and \$15,938,000 in 2011.

In December 2012, Aqua Pennsylvania adopted the repair tax accounting change, implemented on Aqua America's 2012 federal income tax return, which was filed in September 2013. This tax accounting change allows a tax deduction for qualifying utility asset improvements that were formerly capitalized for tax purposes. The repair tax accounting change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to our subsidiary, which provides for flow-through accounting treatment 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 2013 infrastructure rehabilitation surcharge suspension. During 2013, we changed our tax accounting for qualifying utility system repairs in some of our operating divisions outside of Pennsylvania. These divisions currently do not employ a flow-through method of accounting and as such this change had no impact on our effective income tax rate.

In general, we believe that Aqua America, Inc. 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 regulatory 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. 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 regulatory commissions.

In a limited 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.

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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 governing the taking of lands and other property 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. The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the operating subsidiaries that we acquired in connection with the AquaSource acquisition in 2003. In addition, the City seeks to acquire some of the Company's utility system assets located in the southwest section of the City. Refer to Item 3. Legal Proceedings of this Annual Report on Form 10-K for additional information regarding this proceeding.

Despite the condemnation referred to above, 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 regulatory 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 a timely manner. 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. We are actively working directly with state environmental officials to implement or amend these agreements as necessary.

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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 and its amendments 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. We filter all of our surface water sources. New compliance monitoring requirements under the Stage 2 Disinfection By-Product Rule went into effect in 2013 at our largest surface water treatment plants, and will go 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 Stage 2 Rule monitoring requirements. Two systems in North Carolina, one in Ohio, and one in Texas are being addressed in 2014, with operational changes and small capital investments. In aggregate, the costs of compliance with the requirements of the Stage 2 Disinfection By-Product Rules 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 approximately \$180,000. Currently, there are no projects for arsenic treatment in the Company's planned five-year capital budget.

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 that became effective in 2003 changed the monitoring protocols and added a maximum contaminant level for uranium. Under the revised rule, some 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 2013, treatment for radiologicals was installed at a total of six wells, three in Texas and three in North Carolina, at a cost of approximately \$505,000. We expect to spend approximately \$1,450,000 on similar projects in 2014. 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 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 compliance agreements with regulatory agencies in several states where we operate while improvements are being made to address wastewater discharge compliance issues. The required costs to comply with these compliance agreements are included in our capital program and are expected to be less than 1% of our planned five-year capital budget.

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Solid Waste Disposal—The handling and disposal of residuals and solid 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. Five capital projects to reduce waste volume, lower disposal costs, and extend the life of our disposal facilities were completed in the past two years in Pennsylvania. An additional project was completed in 2013 in Ohio. 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 major dams that are subject to the requirements of the federal and state regulations related to dam safety. All major dams 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 2014 to 2018 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. In the event of an increase in the cost of security, including capital expenditures, the costs incurred are expected to be recoverable in water 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, 2013, we employed a total of 1,553 full-time employees. Our subsidiaries are parties to 14 labor agreements with labor unions covering 539 employees. The labor agreements expire at various times between April 2014 and October 2017.

### Available Information

We file annual, quarterly and 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](http://www.sec.gov).

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Our Internet Web site address is [www.aquaamerica.com](http://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 or furnished to 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](http://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 and adversely affect 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 and adversely affected.

***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 regulatory commissions or similar regulatory bodies 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 regulatory commission, the ensuing administrative and hearing process may be lengthy and costly, and the cost to the Company 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 repair tax deductible expenditures. We can provide no assurances that any future rate increase request will be approved by the appropriate state regulatory commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments, expenses, and return for which we initially sought the rate increase.

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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 regulatory 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 and credit markets may limit our access to capital. If we are unable to obtain sufficient capital, or if the cost of borrowing increases, it may materially and adversely affect 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 69 years and our Board of Directors recognizes the value that our common shareholders place on both our historical payment record and on our future common 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 debt and equity 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 that we may rely on for future growth could be impaired. 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 adversely affect 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 cross default issues, 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 adversely affected by increased costs and rates.

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

***Contamination of our water supply may result in disruption in our services and litigation which could adversely affect our business, operating results, and financial condition.***

Our water supplies are subject to possible contamination, including: contamination from naturally occurring compounds; chemicals in groundwater systems; pollution resulting from man-made sources, such as man-made organic chemicals; pharmaceuticals and personal care products; and possible deliberate or terrorist attacks. In the event that a water supply is contaminated, 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. In addition, we may incur significant costs for water quality testing and monitoring in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our business, financial condition, and results of operations. The costs we incur to decontaminate a water source or our water distribution system could be significant and could adversely affect our business, financial condition, and results of operations, and may not be recoverable in rates. We could also be held liable for consequences arising out of human exposure to contamination and/or hazardous substances in our water supplies or other environmental damage. 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.

In addition to the potential pollution of our water supply as described above, 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.

***The failure of, or the requirement to repair, upgrade or dismantle, any of our dams or reservoirs may adversely affect 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 property damage or injuries or fatalities for which we may be liable. 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. 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.

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***Any failure of our water and wastewater treatment plants, network of water and wastewater pipes, or water reservoirs could result in losses and damages that may adversely affect 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 injuries and property damage for which we may be liable. 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 regulatory commissions, with jurisdiction over our operations, and may adversely affect 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 events, could adversely affect 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 adversely affect our operations and have a material adverse effect on 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 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 or other events 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 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.

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***Our business is impacted by weather conditions and is subject to seasonal fluctuations, which could adversely affect 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 adversely affect our business, financial condition, and results of operations.

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

We believe there have been general declines in water usage per residential customer as a result of an increase in conservation awareness, and the structural impact of an increased use of more efficient plumbing fixtures and appliances. These gradual, long-term changes are normally taken into account by the regulatory 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 adversely affected.

***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 adversely affect 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 adversely affect our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could have a material adverse effect on 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 adversely affect 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.

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Some or all of these items could have a material adverse effect on 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 adversely affect 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 adversely affect 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 adversely affect 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 adversely affect 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.

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The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law governing the taking of lands and other property 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 limited 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, some of the Company's other subsidiaries similarly changed their tax method of accounting. Our determination of what qualifies as a capital cost versus a repair expense tax deduction 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 or valuation allowances we may record, 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 adversely affected.

***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. and states. 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 violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators and/or such violations or 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 regulatory commissions or similar regulatory bodies 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, or discharging liability under, current and future environmental and health and safety laws will not adversely affect our business, financial condition, and results of operations.

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***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 adversely affect 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 prospective 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 adversely impacted 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 adversely impacted 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 sewer overflow and system failure. Liabilities resulting from such damages and injuries could materially and adversely affect our business, financial condition, and results of operations.

***Work stoppages and other labor relations matters could adversely affect 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 affect 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 adversely affect 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, electricity, or other materials, could adversely affect our water or wastewater services and our ability to operate in compliance with all regulatory requirements, which could have a significant effect on 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 materially and adversely affect 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.

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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 adversely affect 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 have a direct material impact on 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 regulatory commissions or similar regulatory bodies 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. Aqua maintains 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 regulatory commissions or similar regulatory bodies 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 adversely affect our business, financial condition, or results of operations.

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### Item 1B. Unresolved Staff Comments.

None.

### Item 2. Properties.

Our properties consist of transmission and distribution mains and conduits, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, pipes, dams, reservoirs, buildings, vehicles, land, easements, rights 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 ten thousand miles of transmission and distribution mains, surface water treatment plants, and many well treatment stations and 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, 2013 in the principal states where we operate:

	Net Property, Plant and Equipment	
Pennsylvania	\$ 2,644,468	63.5%
Ohio	362,406	8.7%
North Carolina	275,682	6.6%
Illinois	264,555	6.3%
Texas	237,457	5.7%
Other (1)	382,725	9.2%
Consolidated	<u>\$ 4,167,293</u>	<u>100.0%</u>

(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 have a material adverse effect on our financial position, results of operations or cash flows.

For legal proceedings which were concluded during the first nine months of 2013, refer to our respective 2013 Form 10-Q filings for disclosure of the conclusion of these legal proceedings.

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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, Utility Center, Inc., (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 are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the Northern Assets has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company’s consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City, the amounts deferred will be recognized in the Company’s consolidated income statement. On March 16, 2009, oral argument was held before the Allen County Circuit Court on procedural aspects with respect to the valuation evidence that may be presented and whether we are entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works’ assessment based upon a “capricious, arbitrary or an abuse of discretion” standard. The Company appealed the Wells County Indiana Circuit Court’s decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Supreme Court of Indiana ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, including the planned transaction below, which would resolve this litigation, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds.

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 specific water utility system assets of the Company, which are 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. On July 2, 2013, the Company’s operating subsidiary and the City signed a letter of intent, which among other items, addresses many of the terms by which the City will purchase the Company’s Southern Assets, which will resolve the litigation between the Company and the City with respect to the Northern Assets, and will establish the terms by which the Company’s remaining operating subsidiary will treat wastewater sent to it by the City. The letter of intent states that the City agrees to pay the Company \$50,100,000 for the Northern Assets and Southern Assets in addition to the \$16,910,500 paid to the Company by the City in 2008 as an initial valuation payment for the Northern Assets (for a total cost of \$67,010,500). The letter of intent is conditioned on the Company’s Board of Directors and City Council approving the final terms of the proposed transaction, and the Company and the City entering into several definitive agreements that detail the subject matter of the letter of intent. On February 27, 2014, the Company’s Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company’s Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. If this transaction is consummated, the Company will relinquish its water utility system yet expand its sewer customers based in the City. The completion of the transaction is not expected to close until the third quarter of 2014. The Company continues to evaluate its legal and operational options on an ongoing basis.

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An appeal of a jury verdict for one of the Company's subsidiaries, Aqua Utilities Florida, Inc., by a husband and wife who lived in a house abutting a percolation pond at a wastewater treatment plant owned by the Company's subsidiary in Pasco County, Florida was voluntarily dismissed by the plaintiffs in 2011. The lawsuit was originally filed in August 2006 in the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida and has been amended several times by the plaintiffs. The lawsuit alleged our subsidiary was negligent in the design, operation and maintenance of the plant, resulting in bodily injury to the plaintiffs and various damages to their property. Subsequent amendments to the complaint included additional counts alleging trespass, nuisance, and strict liability. A trial of this matter during January 2011 resulted in a judicial dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. On June 16, 2011, the plaintiffs agreed to dismiss their appeals and to release all claims against our subsidiary and the Company, which resulted in the conclusion of the original plaintiffs' litigation against our subsidiary. In the third quarter of 2008, thirty-six additional plaintiffs, associated with approximately eight other homes in the area, filed a second lawsuit with the circuit court for the Sixth Judicial Circuit in and for Pasco County, Florida, and represented by the same attorneys making similar allegations against our subsidiary with respect to the operation of the facility. The court severed the litigation so that the plaintiffs are grouped by the houses in which they lived and a separate trial was to be held for each of the households. Some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company's favor. The claims from the first of these households were expected to go to trial in May 2013. However, all of the plaintiffs in the 2008 lawsuit have entered into a confidential comprehensive settlement agreement and in October 2013 the court dismissed all claims of all the plaintiffs in that matter with prejudice, which completely concludes the 2008 litigation matter. The settlement is covered by the Company's insurance coverage. Based on the settlement agreement, the Company believes that the amount of loss is not material to the Company's consolidated results of operations or consolidated financial condition.

One of the Company's subsidiaries, South Haven Sewer Works, acquired in 2008 has been operating under a Consent Decree with the EPA and the United States Department of Justice entered into in 2003 while under ownership of a previous owner. Although substantial improvements to the system have been made to significantly reduce the number of sanitary sewer overflows at the sewer system since the Company's acquisition of the subsidiary, the EPA and Department of Justice proposed revisions to the Consent Decree to address purported sanitary sewer overflow violations since the date of the original Consent Decree. On April 15, 2013, the Company's subsidiary and the EPA and Department of Justice submitted a proposed modification of the Consent Decree for approval by the Northern District of Indiana US District Court. The Court entered the modification on April 25, 2013. The modification includes the provision of operational compliance and implementation of a Capacity, Management, Operations, and Maintenance program for one year and a civil penalty in the amount of \$254,250. The Company had withheld payment of an amount of shares of the Company's common stock to the sellers as a contingent indemnification offset related to the proceeding. Pursuant to further agreement with the sellers, the Company retained a portion of those shares in an amount covering the stipulated penalty amounts and anticipated attendant costs, and in January 2013, released a number of shares to the sellers. The Company intends to release a final designated amount of shares to the seller that were withheld, which are in excess of the amount needed, to cover contingent increases in the absence of such contingent increases.

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 plans to challenge these potential fines and is unable to estimate the amount of the final fines.

#### 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 13, 2014, there were approximately 25,795 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
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
2012					
Dividend paid per common share	\$0.132	\$0.132	\$0.132	\$0.140	\$0.536
Dividend declared per common share	0.132	0.132	0.272	—	0.536
Price range of common stock					
—high	18.20	20.14	21.54	20.75	21.54
—low	16.85	17.22	19.25	19.32	16.85

We have paid common dividends consecutively for 69 years. Effective May 8, 2013, our Board of Directors authorized an increase of 8.6% in the September 1, 2013 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 2013, the annualized dividend rate increased to \$0.608 per share. This is the 23<sup>rd</sup> dividend increase in the past 22 years and the 15<sup>th</sup> 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 55.6% of net income attributable to common shareholders.

In May 2013, the Board of Directors of the Company approved a five-for-four stock split to be effected in the form of a 25% stock distribution to shareholders of record on August 16, 2013. The new shares were distributed on September 1, 2013. Aqua America's par value of \$0.50 per share did not change as a result of the common stock distribution. All share and per share data for all periods presented have been adjusted to give effect to the stock split.

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The following table summarizes the Company's purchases of its common stock for the quarter ending December 31, 2013:

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, 2013	—	\$ —	—	685,348
November 1-30, 2013	—	\$ —	—	685,348
December 1-31, 2013	364	\$ 23.66	—	685,348
Total	<u>364</u>	<u>\$ 23.66</u>	<u>—</u>	<u>685,348</u>

- (1) These amounts consist of 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. The program has no fixed expiration date. No repurchases were made under this program in 2013.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2013 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 2013 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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### 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, 2013, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for long-term debt are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$86,288	\$58,695	\$35,850	\$53,019	\$53,994	\$1,267,025	\$1,554,871	\$1,540,296
Variable rate	—	—	—	—	—	—	—	—
Total	<u>\$86,288</u>	<u>\$58,695</u>	<u>\$35,850</u>	<u>\$53,019</u>	<u>\$53,994</u>	<u>\$1,267,025</u>	<u>\$1,554,871</u>	<u>\$1,540,296</u>
Weighted average interest rate	5.18%	5.19%	4.81%	5.14%	6.32%	4.90%	5.00%	

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, 2013, the carrying value of these investments, which reflects market value, in thousands of dollars, was \$196.

### 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 2013 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 2013 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.

(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 2013 Annual Report to Shareholders filed as Exhibit 13.1 to this Form 10-K is incorporated by reference herein.

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(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 2013 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 2013 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

We make available free of charge within the Corporate Governance portion of the Investor Relations section of our Web site, at [www.aquaamerica.com](http://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.

Directors of the Registrant, Audit Committee, Audit Committee Financial Expert and Filings under Section 16(a)

The information appearing in the sections captioned “Information Regarding Nominees and Directors,” “Corporate Governance – Code of Ethics”, – “Board and Board Committees”, and – “Audit Committee” and “Section 16(a) Beneficial Ownership Reporting Compliance” of the definitive Proxy Statement relating to our May 7, 2014, 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.

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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	68	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	55	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	49	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. Kyriess	63	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	46	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	68	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	51	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)

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

- (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 7, 2014, 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 7, 2014, 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, 2013:

#### Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders	2,178,868(1)	\$ 16.82(2)	4,680,779
Equity compensation plans not approved by security holders	0	0	0
<b>Total</b>	<b>2,178,868</b>	<b>\$ 16.82</b>	<b>4,680,779</b>

- (1) Consists of 1,538,110 shares issuable upon exercise of outstanding options, 528,092 shares issuable upon conversion of outstanding performance share units, and 112,666 shares issuable upon conversion of outstanding restricted share units.
- (2) Calculated only based upon outstanding options of 1,538,110 shares of our common stock.

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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 7, 2014, 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 7, 2014, 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 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, 2013 and 2012  
Consolidated Statements of Net Income – 2013, 2012, and 2011  
Consolidated Statements of Comprehensive Income – 2013, 2012, and 2011  
Consolidated Statements of Cash Flows – 2013, 2012, and 2011  
Consolidated Statements of Capitalization – December 31, 2013 and 2012  
Consolidated Statements of Equity – 2013, 2012, and 2011  
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: March 3, 2014

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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 March 3, 2014 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/ Mary C. Carroll

Mary C. Carroll  
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/ Mario Mele

Mario Mele  
Director

/s/ Ellen T. Ruff

Ellen T. Ruff  
Director

/s/ Andrew J. Sordoni III

Andrew J. Sordoni III  
Director

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

Condensed Balance Sheets  
(In thousands of dollars)  
December 31, 2013 and 2012

	2013	2012
<b>Assets</b>		
Current assets:		
Accounts receivable, net	\$ 1,423	\$ 3,116
Accounts receivable—affiliates	3,092	18,572
Notes Receivable—affiliates	—	60,000
Deferred income taxes	34,366	34,219
Prepayments and other current assets	3,232	3,337
Total current assets	<u>42,113</u>	<u>119,244</u>
Deferred charges and other assets, net	18,227	17,678
Notes Receivable—affiliates	280,830	299,008
Accounts receivable—affiliates	54,456	127,667
Deferred income tax asset	94,809	50,435
Investment in subsidiaries	1,510,377	1,457,884
	<u>\$2,000,812</u>	<u>\$2,071,916</u>
<b>Liabilities and Equity</b>		
Stockholders' equity	\$1,534,835	\$1,385,704
Long-term debt, excluding current portion	324,400	451,401
Current liabilities:		
Current portion of long-term debt	27,000	31,600
Accounts payable	300	—
Accrued interest	3,115	3,599
Accrued taxes	798	20,883
Accounts payable—affiliates	22,263	22,312
Other accrued liabilities	13,404	6,055
Total current liabilities	<u>66,880</u>	<u>84,449</u>
Other liabilities	74,697	150,362
	<u>\$2,000,812</u>	<u>\$2,071,916</u>

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

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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, 2013, 2012 and 2011

	2013	2012	2011
Other income	\$ 6,936	\$ 13,017	\$ 6,935
Operating expense and other expenses	2,941	1,734	4,067
Gain on sale of utility systems	(400)	(13,064)	—
Operating income	4,395	24,347	2,868
Interest expense, net	4,208	4,031	3,787
Other expense (income)	139	(1,714)	896
Income (loss) before equity in earnings of subsidiaries and income taxes	48	22,030	(1,815)
Equity in earnings of subsidiaries	220,675	182,652	151,021
Income before income taxes	220,723	204,682	149,206
Provision for income taxes	(577)	8,119	6,137
Net income attributable to common shareholders	<u>\$221,300</u>	<u>\$196,563</u>	<u>\$143,069</u>
Comprehensive income	<u>\$221,531</u>	<u>\$196,422</u>	<u>\$142,826</u>
Net income per common share:			
Basic	<u>\$ 1.26</u>	<u>\$ 1.13</u>	<u>\$ 0.83</u>
Diluted	<u>\$ 1.25</u>	<u>\$ 1.12</u>	<u>\$ 0.83</u>
Average common shares outstanding during the period:			
Basic	<u>176,140</u>	<u>174,201</u>	<u>172,727</u>
Diluted	<u>176,814</u>	<u>174,918</u>	<u>173,361</u>

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

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

Condensed Statements of Cash Flows  
(In thousands of dollars)  
Years ended December 31, 2013, 2012 and 2011

	2013	2012	2011
Net cash flows from operating activities	<u>\$ 159,144</u>	<u>\$ 44,097</u>	<u>\$ 79,527</u>
Cash flows from investing activities:			
Acquisitions of utility systems and other, net	(266)	(105,160)	(6,936)
Net proceeds from the sale of utility systems and other assets	—	79,560	13,049
Proceeds from note receivable	—	—	5,289
(Increase) decrease in investment of subsidiary	50,337	(54,574)	15,184
Other	<u>(267)</u>	<u>(3,681)</u>	<u>74</u>
Net cash flows from (used in) investing activities	<u>49,804</u>	<u>(83,855)</u>	<u>26,660</u>
Cash flows from financing activities:			
Net repayments of short-term debt	—	(5,000)	(10,000)
Proceeds from long-term debt	98,956	210,317	40,177
Repayments of long-term debt	(230,600)	(99,212)	(67,000)
Proceeds from issuing common stock	10,290	13,190	12,607
Proceeds from exercised stock options	25,698	14,598	6,603
Share-based compensation windfall tax benefits	2,420	—	—
Repurchase of common stock	(12,823)	(1,464)	(1,163)
Dividends paid on common stock	<u>(102,889)</u>	<u>(93,423)</u>	<u>(87,133)</u>
Net cash flows (used in) from financing activities	<u>(208,948)</u>	<u>39,006</u>	<u>(105,909)</u>
Net (decrease) increase in cash and cash equivalents	—	(752)	278
Cash and cash equivalents at beginning of year	—	752	474
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 752</u>

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, 2013 and 2012, Aqua America, Inc. (parent) had a current accounts receivable – affiliates balance of \$3,092 and \$18,572. As of December 31, 2013 and 2012, Aqua America, Inc. (parent) had a notes receivable – affiliates balance of \$280,830 and \$359,008. 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 \$18,075, \$22,520 and \$49,850 were paid to Aqua America, Inc. (parent) by its wholly-owned subsidiaries during the years ended December 31, 2013, 2012 and 2011, 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 \$150,000 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:

2014	\$ 27,000
2015	18,000
2016	16,050
2017	26,050
2018	20,800
Thereafter	243,500

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:

	2013	2012	2011
Balance outstanding at December 31,	\$—	\$—	\$ 5,000
Interest rate at December 31,	—	—	3.25%
Average borrowings outstanding	\$—	\$—	\$ 1,250
Weighted-average interest rate	—	—	1.71%
Maximum amount outstanding	\$—	\$—	\$10,000

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. (28) (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. (28) (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. (28) (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 (33) (Exhibit 2.4)
3.1	Aqua America, Inc., Amended and Restated Articles of Incorporation as of May 10, 2012 (32) (Exhibit 3.1)
3.2	Amended and Restated Bylaws, as amended effective as of May 10, 2012 (32) (Exhibit 3.2)
4.1	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-eighth Supplemental Indenture, dated as of November 15, 2004 (13) (Exhibit 4.28)
4.1.8	Thirty-ninth Supplemental Indenture, dated as of May 1, 2005 (14) (Exhibit 4.29)
4.1.9	Fortieth Supplemental Indenture, dated as of December 15, 2005 (15) (Exhibit 4.31)
4.1.10	Forty-first Supplemental Indenture, dated as of January 1, 2007 (17) (Exhibit 4.1)
4.1.11	Forty-second Supplemental Indenture, dated as of December 1, 2007 (18) (Exhibit 4.36)
4.1.12	Forty-third Supplemental Indenture, dated as of December 1, 2008 (21) (Exhibit 4.37)
4.1.13	Forty-fourth Supplemental Indenture, dated as of July 1, 2009 (22) (Exhibit 4.38)
4.1.14	Forty-fifth Supplemental Indenture, dated as of October 15, 2009 (24) (Exhibit 4.39)
4.1.15	Forty-sixth Supplemental Indenture, dated as of October 15, 2010 (26) (Exhibit 4.35)
4.1.16	Forty-seventh Supplemental Indenture, dated as of October 15, 2012 (33) (Exhibit 4.24)
4.1.17	Forty-eighth Supplemental Indenture, dated as of October 1, 2013
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* (21) (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 Northumberland County Industrial Development Authority, Aqua Pennsylvania, Inc., and Sovereign Securities Corporation, LLC, dated November 16, 2004 (15) (Exhibit 10.31)
10.4	Bond Purchase Agreement among the Montgomery County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 12, 2007 (18) (Exhibit 10.34)
10.5	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated May 10, 2005 (14) (Exhibit 10.36)
10.6	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2005 (15) (Exhibit 10.37)
10.7	Aqua America, Inc. Dividend Reinvestment and Direct Stock Purchase Plan* (19)
10.8	Non-Employee Directors' Compensation for 2013* (33) (Exhibit 10.20)
10.9	Non-Employee Directors' Compensation for 2014*
10.10	Bond Purchase Agreement among the Chester County Industrial Development Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 21, 2006 (18) (Exhibit 10.2)
10.11	Bond Purchase Agreement among the Pennsylvania Economic Development Financing Authority, Aqua Pennsylvania, Inc. and Sovereign Securities Corporation, LLC, dated December 4, 2008 (21) (Exhibit 10.35)
10.12	Aqua America, Inc. 2004 Equity Compensation Plan (as amended and restated as of January 1, 2009)* (21) (Exhibit 10.36)
10.13	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Nicholas DeBenedictis, effective as of January 1, 2009* (21) (Exhibit 10.37)
10.14	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and David P. Smeltzer, effective as of January 1, 2009* (21) (Exhibit 10.39)
10.15	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Karl M. Kyriss, effective as of January 1, 2009* (21) (Exhibit 10.40)
10.16	Amendment to Incentive Stock Option and Dividend Equivalent Grant Agreements between Aqua America, Inc. and Christopher H. Franklin, effective as of January 1, 2009* (21) (Exhibit 10.41)
10.17	Change in Control and Severance Agreement between Aqua America, Inc. and Nicholas DeBenedictis, dated December 31, 2008* (21) (Exhibit 10.42)
10.18	Change in Control Agreement between Aqua America, Inc. and David P. Smeltzer, dated December 31, 2008* (21) (Exhibit 10.44)
10.19	Change in Control Agreement between Aqua America, Inc. and Karl M. Kyriss, dated December 31, 2008* (21) (Exhibit 10.45)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.20	Change in Control Agreement between Aqua America, Inc. and Christopher H. Franklin, dated December 31, 2008* (21) (Exhibit 10.46)
10.21	Change in Control Agreement between Aqua America, Inc. and Christopher P. Luning, dated March 1, 2011* (33) (Exhibit 10.34)
10.22	Aqua America, Inc. 2009 Executive Deferral Plan (as amended and restated effective January 1, 2009* (20) (Exhibit 4.1)
10.23	Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, (as amended effective February 25, 2011) * (26) (Exhibit 10.42)
10.24	Employment Agreement dated January 31, 2010, between Aqua America, Inc. and Nicholas DeBenedictis * (23) (Exhibit 10.1)
10.25	Amendment to Employment Agreement dated December 6, 2011, between Aqua America, Inc. and Nicholas DeBenedictis* (29) (Exhibit 10.56)
10.26	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 (22) (Exhibit 10.52)
10.27	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 (24) (Exhibit 10.59)
10.28	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated January 31, 2010* (23) (Exhibit 10.2)
10.29	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 (26) (Exhibit 10.51)
10.30	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 (26) (Exhibit 4.34)
10.31	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 (29) (Exhibit 4.25)
10.32	Revolving Credit Agreement between Aqua America, Inc. and PNC Bank, National Association, CoBank, ACB, and Huntington National Bank, dated as of March 23, 2012 (31) (Exhibit 10.60)
10.33	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 (33) (Exhibit 10.53)
10.34	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
10.35	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 (33) (Exhibit 10.54)
10.36	Aqua America, Inc. and Subsidiaries Annual Cash Incentive Compensation Plan* (33) (Exhibit 10.56)

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
10.37	Form of Performance Share Unit Grant Agreement for other Executive Officers* (34) (Exhibit 10.69)
10.38	Form of Restricted Stock Unit Grant Agreement for other Executive Officers* (34) (Exhibit 10.68)
10.39	Restricted Stock Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated December 6, 2011* (29) (Exhibit 10.57)
10.40	Restricted Stock Unit Grant Agreement made by Aqua America, Inc. to Nicholas DeBenedictis dated February 27, 2013* (34) (Exhibit 10.66)
10.41	Performance Share Unit Grant Agreement by Aqua America, Inc. to Nicholas DeBenedictis dated February 27, 2013* (34) (Exhibit 10.67)
10.42	Aqua America, Inc. Supplemental Pension Benefit Plan for Salaried Employees (as amended and restated effective January 1, 2011)* (29) (Exhibit 10.58)
10.43	Aqua America, Inc. Supplemental Executive Retirement Plan for Nicholas DeBenedictis (as amended and restated effective January 1, 2011)* (29) (Exhibit 10.59)
10.44	Aqua America, Inc. Amended and Restated Employee Stock Purchase Plan* (30) (Appendix C)
10.45	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
10.46	1994 Equity Compensation Plan, as amended by Amendment effective August 5, 2003* (11) (Exhibit 10.5)
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 2013 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2013
21.1	Subsidiaries of Aqua America, Inc.
23.1	Consent of Independent Registered Public Accounting Firm – PricewaterhouseCoopers LLP
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 March 15, 2004 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2003.
- (12) Filed as a Registration Statement on Form S-3 on February 19, 2005.
- (13) Filed on March 15, 2005 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2004.
- (14) Filed on August 4, 2005 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2005.
- (15) Filed on March 14, 2006 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2005.
- (16) Filed on February 28, 2007 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2006.
- (17) Filed on May 8, 2007 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.
- (18) Filed on February 27, 2008 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2007.
- (19) Filed on August 8, 2008 as a Registration Statement on Form S-3.
- (20) Filed on December 10, 2008 as a Registration Statement on Form S-8.
- (21) Filed on February 27, 2009 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2008.
- (22) Filed on August 6, 2009 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.
- (23) Filed as an Exhibit to Form 8-K filed on February 4, 2010.
- (24) Filed on February 26, 2010 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2009.
- (25) Filed as an Exhibit to Form 8-K filed on October 7, 2010.
- (26) Filed on February 25, 2011 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2010.
- (27) Filed on May 9, 2011 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.
- (28) Filed on November 4, 2011 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 2011.

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- (29) Filed on February 27, 2012 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2011.
- (30) Filed as Appendix C to Proxy Statement on Schedule 14A filed on March 30, 2012.
- (31) Filed on May 7, 2012 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2012.
- (32) Filed as an Exhibit to Form 8-K filed on May 11, 2012.
- (33) Filed on February 28, 2013 as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 2012.
- (34) Filed on May 6, 2013 as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.

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

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**FORTY-EIGHTH SUPPLEMENTAL**

**INDENTURE**

DATED AS OF OCTOBER 1, 2013

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

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FORTY-EIGHTH SUPPLEMENTAL INDENTURE dated as of October 1, 2013, 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-four 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:

Designation	Indenture	Amount
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	

6.30% Subseries B due 2002	10,000,000	
6.14% Subseries C due 2008	10,000,000	
5.80% Subseries D due 2003	10,000,000	
5.85% Subseries E due 2004	10,000,000	
6.00% Subseries F due 2004	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 2005	15,000,000	
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

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and

WHEREAS, the bonds of each of said series that are outstanding as of June 30, 2013 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-seven 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, in addition to the property described in the Original Indenture and the First through Forty-seventh Supplemental Indentures thereto, the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon and in order to confirm such lien shall cause this Forty-eighth Supplemental Indenture, with a true and correct copy of the Original Indenture attached hereto as Exhibit D (redacted to delete property descriptions for counties in which such Original Indenture has already been recorded) to be recorded in the offices for the Recording of Deeds for the county of Clearfield; 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-eighth Supplemental Indenture, three series of bonds to be designated (i) "First Mortgage Bond, 3.94% Series due 2031" (herein referred to as the "3.94% Series due 2031") to be limited in aggregate principal amount to \$25,000,000, to bear interest at the rate of 3.94% per annum, and to mature on November 1, 2031, (ii) "First Mortgage Bond, 4.61% Series due 2045" (herein referred to as the "4.61% Series due 2045") to be limited in aggregate principal amount to \$25,000,000, to bear interest at the rate of 4.61% per annum, and to mature on November 1, 2045, and (iii) "First Mortgage Bond, 4.62% Series due 2046" (herein referred to as the "4.62% Series due 2046") to be limited in aggregate principal amount to \$25,000,000, to bear interest at the rate of 4.62% per annum, and to mature on November 1, 2046 (the 3.94% Series due 2031, the 4.61% Series due 2045 and the 4.62% Series due 2046 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, including reducing the outstanding amount of short-term lines of credit; 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-eighth 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

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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 3.94% Series due 2031, the 4.61% Series due 2045 and the 4.62% Series due 2046 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Forty-eighth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Forty-eighth Supplemental Indenture), and has further duly authorized the execution, delivery and recording of this Forty-eighth Supplemental Indenture setting forth the terms and provisions of the 3.94% Series due 2031, the 4.61% Series due 2045 and the 4.62% Series due 2046 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-eighth Supplemental Indenture to conform to any pertinent law or usage:

[continued on next page]

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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 ANY 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.

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 3.94% Series due 2031

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 1st day of November, 2031 (the "Maturity Date"), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of October 24, 2013, 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 May 1, 2014 from the date hereof) until the principal hereof shall become due and payable, at the rate of 3.94% per annum, payable semiannually in like coin or currency on the 1<sup>st</sup> day of May and the 1<sup>st</sup> day of November in each year, commencing May 1, 2014 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 5.94% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-eighth 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 15<sup>th</sup> day of the calendar month preceding the 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.

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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-eighth Supplemental Indenture (the "Forty-eighth Supplemental Indenture") dated as of October 1, 2013, and designated therein as "First Mortgage Bond, 3.94% Series due 2031" 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, 4.61% Series due 2045" in the aggregate principal amount of \$25,000,000 and its "First Mortgage Bond, 4.62% Series due 2046" in the aggregate principal amount of \$25,000,000.

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 of or 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.

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-eighth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond then outstanding.

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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-eighth 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-eighth 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 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-eighth 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.

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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 ANY 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.

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 4.61% 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 1st day of November, 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 October 24, 2013, 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 May 1, 2014 from the date hereof) until the principal hereof shall become due and payable, at the rate of 4.61% per annum, payable semiannually in like coin or currency on the 1<sup>st</sup> day of May and the 1<sup>st</sup> day of November in each year, commencing May 1, 2014 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 6.61% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-eighth 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 15<sup>th</sup> day of the calendar month preceding the 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.

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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-eighth Supplemental Indenture (the "Forty-eighth Supplemental Indenture") dated as of October 1, 2013, and designated therein as "First Mortgage Bond, 4.61% Series due 2045" 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, 3.94% Series due 2031" in the aggregate principal amount of \$25,000,000 and its "First Mortgage Bond, 4.62% Series due 2046" in the aggregate principal amount of \$25,000,000.

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 of or 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.

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-eighth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond then outstanding.

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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-eighth 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-eighth 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 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-eighth 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.

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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 ANY 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.

AQUA PENNSYLVANIA, INC.

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 4.62% Series due 2046

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 1st day of November, 2046 (the "Maturity Date"), at the address designated by the registered owner pursuant to Section 11.1 of the Bond Purchase Agreement dated as of October 24, 2013, 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 May 1, 2014 the date hereof) until the principal hereof shall become due and payable, at the rate of 4.62% per annum, payable semiannually in like coin or currency on the 1<sup>st</sup> day of May and the 1<sup>st</sup> day of November in each year, commencing May 1, 2014 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 6.62% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Forty-eighth 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 15<sup>th</sup> day of the calendar month preceding the 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.

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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-eighth Supplemental Indenture (the "Forty-eighth Supplemental Indenture") dated as of October 1, 2013, and designated therein as "First Mortgage Bond, 4.62% Series due 2046" 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, 3.94% Series due 2031" in the aggregate principal amount of \$25,000,000 and its "First Mortgage Bond, 4.61% Series due 2045" in the aggregate principal amount of \$25,000,000.

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 of or 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.

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-eighth Supplemental Indenture) determined for the redemption date with respect to such principal amount of each bond then outstanding.

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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-eighth 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-eighth 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-eighth 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.

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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-eighth Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Forty-eighth Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Forty-eighth Supplemental Indenture has been in all respects duly authorized:

NOW, THEREFORE, THIS FORTY-EIGHTH 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-eighth 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:

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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-seventh 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.

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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.

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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-fifth series limited in aggregate principal amount to \$25,000,000 designated as “Aqua Pennsylvania, Inc., First Mortgage Bond, 3.94% Series due 2031”, a sixty-sixth series of bonds limited in aggregate principal amount to \$25,000,000 designated as “Aqua Pennsylvania, Inc., First Mortgage Bond, 4.61% Series due 2045” and a sixty-seventh series of bonds limited in aggregate principal amount to \$25,000,000 designated as “Aqua Pennsylvania, Inc., First Mortgage Bond, 4.62% Series due 2046”.

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Interest on each Series of the Bonds shall be payable semiannually on May 1 and November 1 (each an "Interest Payment Date") in each year commencing May 1, 2014. 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 3.94% Series due 2031 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 November 1, 2031 and shall bear interest at the rate of 3.94% per annum. The 4.61% 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 November 1, 2045 and shall bear interest at the rate of 4.61% per annum. The 4.62% Series due 2046 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 November 1, 2046 and shall bear interest at the rate of 4.62% 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 (15<sup>th</sup>) 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.

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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. The Company may redeem the Bonds prior to maturity only as provided in this Section and upon payment of the redemption price specified in this Section. 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 then outstanding. 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.

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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.

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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-eighth 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 3.94% Series due 2031 in the aggregate principal amount of \$25,000,000, the 4.61% Series due 2045 in the aggregate principal amount of \$25,000,000 and the 4.62% Series due 2046 in the aggregate principal amount of \$25,000,000 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

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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 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 one 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, 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.

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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 (xii) 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;

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(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.

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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-eighth 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, 2012, 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.

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“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-eighth 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.

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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 and Forty-seventh Supplemental Indentures are hereby confirmed. All references in this Forty-eighth 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-eighth 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 teletype (with receipt confirmed) at the following address:

The Bank of New York Mellon Trust Company, N. A.  
Global Corporate Trust  
1735 Market Street, 6<sup>th</sup> 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 teletype number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Forty-eighth 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-eighth Supplemental Indenture is dated for convenience and for the purpose of reference as of October 1, 2013, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

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SECTION 5. In order to facilitate the recording or filing of this Forty-eighth 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: /s/ Maria Gordiany

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

[CORPORATE SEAL]

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

Attest: /s/ Teresa Petta  
Authorized Officer

By: /s/ Melonee Young  
Name: Melonee Young  
Title: Authorized Signer

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The Bank of New York Mellon Trust Company, N.A., Mortgagee and Trustee named in the foregoing Forty-eighth 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, 6<sup>th</sup> 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/ Melonee Young  
Name: Melonee Young  
Title: Authorized Signer

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COMMONWEALTH OF PENNSYLVANIA:

COUNTY OF MONTGOMERY:

On the 2nd day of October, 2013 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-eighth 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/ Jacqueline Peyreferry

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**ACKNOWLEDGMENT**

STATE OF CALIFORNIA  
COUNTY OF \_\_\_\_\_ )

On October 2, 2013 before me Kristie Dianne Duenes, Notary Public personally appeared Melonee Young, 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/ Kristie Dianne Duenes \_\_\_\_\_

**(Seal)**

**EXHIBIT A**

**OUTSTANDING FIRST MORTGAGE BONDS**

Division	Structure	Interest Rate	Issue Date	Maturity Date	Original Amount	Balance (incl. CP) @ 06/30/13
Roaring Creek	Tax Exempt	5.05%	11/30/04	10/01/39	14,000,000	14,000,000
Aqua Pa	Tax Exempt	5.15%	06/26/02	09/01/32	25,000,000	25,000,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/36	21,770,000	21,770,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/37	24,165,000	24,165,000
Aqua Pa	Tax Exempt	5.00%	05/19/05	11/01/38	25,375,000	25,375,000
Aqua Pa	Tax Exempt	5.00%	12/28/05	02/01/35	24,675,000	24,675,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/40	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.00%	01/16/07	02/01/41	23,915,000	23,915,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/42	24,830,000	24,830,000
Aqua Pa	Tax Exempt	5.25%	12/20/07	07/01/43	24,830,000	24,830,000
Aqua Pa	Tax Exempt	6.25%	12/18/08	10/01/17	9,000,000	9,000,000
Aqua Pa	Tax Exempt	6.75%	12/18/08	10/01/18	13,000,000	13,000,000
Aqua Pa	Tax-Exempt	5.00%	07/18/09	10/01/39	58,000,000	58,000,000
Aqua Pa	Tax-Exempt	5.00%	11/17/09	11/15/40	62,165,000	62,165,000
Aqua Pa	Tax-Exempt	4.75%	11/17/09	11/15/40	12,520,000	12,520,000
Aqua Pa	Tax-Exempt	5.00%	11/17/10	12/01/33	25,910,000	25,910,000
Aqua Pa	Tax-Exempt	5.00%	11/17/10	12/01/34	19,270,000	19,270,000
Aqua Pa	Tax-Exempt	4.50%	11/17/10	12/01/42	15,000,000	15,000,000
Aqua Pa	Tax-Exempt	5.00%	11/17/10	12/01/43	81,205,000	81,205,000
					<u>528,545,000</u>	<u>528,545,000</u>
Aqua Pa	Taxable	6.89%	12/19/95	12/15/15	12,000,000	12,000,000
Aqua Pa	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	Taxable	9.17%	11/01/91	09/15/21	8,000,000	3,600,000
Aqua Pa	Taxable	9.29%	11/01/91	09/15/26	12,000,000	12,000,000
Aqua Pa	Taxable	9.97%	06/01/88	06/01/18	5,000,000	5,000,000
Aqua Pa	Taxable	5.08%	05/10/04	05/15/15	20,000,000	20,000,000
Aqua Pa	Taxable	5.17%	05/10/04	05/10/17	7,000,000	7,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	15,000,000	15,000,000
Aqua Pa	Taxable	5.751%	05/10/04	05/15/19	5,000,000	5,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/10/27	15,000,000	15,000,000
Aqua Pa	Taxable	6.06%	05/10/04	05/15/27	5,000,000	5,000,000
Aqua Pa	Taxable	5.98%	05/10/04	05/15/28	3,000,000	3,000,000
Aqua PA	Taxable	3.79%	11/13/12	12/01/41	40,000,000	40,000,000
Aqua PA	Taxable	3.80%	11/13/12	12/01/42	20,000,000	20,000,000
Aqua PA	Taxable	3.85%	11/13/12	12/01/47	20,000,000	20,000,000
					<u>206,000,000</u>	<u>201,600,000</u>
<b>TOTAL FIRST MORTGAGE BONDS</b>					<u><u>734,545,000</u></u>	<u><u>730,145,000</u></u>

**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

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
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				12/31/02		12/31/02		12/30/02	
	12/27/02	3036	1425	B-5514	1552	02631	0294	10018	0204
Thirty-Eighth Supplemental				11/23/04		11/22/04		11/22/04	
	11/9/04	4196	1557	B-6342	800	B-3348	1698	B-00020	0237
Thirty-Ninth Supplemental			1471	5/19/05	1375		0939		0688
	5/18/05	4441	#2005066104	6496	#10534807	03487	32005044507	0020	2005069126
Fortieth Supplemental				12/23/05	897	12/23/05	2206	12/29/05	
	12/27/05	4768	1853	6720	#10608829	03687	#2005123053	11689	1156
Forty-first Supplemental			1290	1/12/07	820	1/11/07		1/30/07	00329
	1/11/07	5250	#2007004610	7058	#10720615	04002	2257	0225	#2007005061

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Forty-second Supplemental	12/13/07		#2007119080	12/13/07	2091	12/13/07	1166	12/17/07	02498-02544
				7326	#10809606	04262	#2007105884	12287	#2007147147
Forty-third Supplemental	12/08/08	5961	2131	12/08/08	1527	12/08/08	1185	12/08/08	2585
			#2008099812	7556	#10889672	4466		12504	#2008115955
Forty-fourth Supplemental	07/14/09	6158	2032	07/13/09	1563	07/09/09	1919	07/14/09	894
			2009057188	7720	#10943667	4579	#2009042911	12659	#2009075197
Forty-fifth Supplemental	11/12/09	6266	1759	11/12/09	255	11/12/09	767	11/12/09	2281
				7808		4654		12735	
Forty-sixth Supplemental	11/09/10	Instrument #2010079859		11/09/10	673	11/09/10	1240	11/15/10	587
						4833		12958	
Forty-seventh	11/08/12	Instrument #2012093134		11/07/12	1437	11/07/12	763	11/05/12	792
				8558		5216		13445	

**BERKS COUNTY**

<u>Indenture</u>	<u>Date of Recording</u>	<u>Book</u>	<u>Page</u>
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	
Forty-fourth Supplemental	07/14/09	Instr. #2009033415	
Forty-fifth Supplemental	11/12/09	Instr. #2009053102	
Forty-sixth Supplemental	11/12/10	Instr. #2010044820	

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**BERKS COUNTY**

<u>Indenture</u>	<u>Date of Recording</u>	<u>Book</u>	<u>Page</u>
Forty-seventh Supplemental	11/07/12	Instrument	#2012046626

**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							200		
Fortieth Supplemental	5/16/05	200504827	5/18/05	200505042	5/16/2005	2032	#005488	5/13/05	2005-7340
							0934		2005-
	12/23/05	200594992	12/23/05	200513981	12/27/05	2088	#015325	12/27/05	00020320
Forty-first Supplemental									2007-
	1/12/07	200700440	1/17/07	200700636	1/11/07	2007	000466	1/12/07	00000583
Forty-second Supplemental									2007
	12/18/07	200714762	12/20/07	200712896	12/17/07	2007	013275	12/14/07	00016849
Forty-third Supplemental									2008
	12/10/08	200821178	12/11/08	200812596	12/12/08	2008	00014552	12/12/08	00014552
Forty-fourth Supplemental									2009
	07/09/09	200914068	07/10/09	200906468	07/14/09	2009	005608	07/09/09	00007283
Forty-fifth Supplemental									2009
	11/12/09	200924720	11/12/09	200910768	11/13/09	2009	009439	11/12/09	00012159
Forty-Sixth Supplemental									2010
	11/04/10	201025652	11/12/10	201010292	11/08/10	2010	009211	11/05/10	11283
Forty-Seventh Supplemental							Instrument #2012-		Instrument #2012-
	11/06/12	201230341	11/07/12	201210538	11/07/12		014826	11/07/12	00015794

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			50			2201			1871-1919		Vol.	1
	5/18/05	1761	#200509076	5/17/05	2109	#200500008491	5/18/05	2150	#200500010263	5/16/05	2769	#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			634			472-515			798-840			229-272
	1/11/07	1933	#200700696	1/12/07	2214	#200700000749	1/11/07	2238	#200700000686	1/16/07	3216	#200700000492
Forty-second Supplemental			953			175			473			1
	12/17/07	2024	#200721572	12/19/07	2261	#200700018937	12/18/07	2285	#200700022991	12/18/07	3433	#200700013194
Forty-third Supplemental												1
	12/10/08	Instrument #200819618		12/18/08	2296	268	12/10/08	2324	2159	12/09/08	3633	1-45
Forty-fourth Supplemental			680			2050			842			204
	07/14/09	2160	#200910564	07/14/09	2313	#200900007071	07/10/09	2344	#200900009544	07/10/09	3777	#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	

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						689						345
Supplemental	5/19/05	3970	54	5/18/05	1330	#200505926	5/13/05	1907	0247	5/16/05	234	#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			2081			548						0362
Supplemental	1/11/07	4707	#2007000007	1/12/07	1540	#200700596	1/11/07	1979	0482	1/09/07	0244	#2007000022
Forty-second			223			261						219
Supplemental	12/17/07	5062	200700023048	12/18/07	1650	#200715671	12/14/07	200746336		12/18/07	250	#2007-1339
Forty-third			110			864						548
Supplemental	12/10/08	5312	200800020691	12/11/08	1735	#7520A3.03	12/11/08	200839447		12/08/08	255	#200800142
Forty-fourth			643			883						
Supplemental	07/13/09	5390	200900011159	07/10/09	1778	#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

Indenture	JUNIATA			LACKAWANNA			LUZERNE			MONROE		
	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			0049						117727			8444
	5/13/05	354	#2005-1512	5/16/05	#200512642		5/17/05	3005	#5637329	5/18/05	2225	#200521128
Fortieth Supplemental									349088			9105
	12/22/05	0365	1028	12/23/05	#20536270		12/28/05	3005	#5677739	12/27/05	2252	#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			0847						328532			4362
	12/13/07	401	#20073981	12/17/07	#200734133		12/17/07	3007	#5799531	12/17/07	2323	#200745976
Forty-third Supplemental			356						262977			263
	12/08/08	418	#2008004757	12/11/08	#200829528		12/11/08	3008	#5850129	12/08/08	2346	#200834800
Forty-fourth Supplemental									137259			6497
	07/13/09	428	403	07/10/09	#200917720		07/14/09	3009	#5877023	07/14/09	2356	#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					Instrument							
	11/05/12	Instrument #201204749		11/05/12	#201221515		11/5/12	3012	195945	11/07/12	2410	6678

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			182906			135						
	5/17/05	2005-1	#2005026917	5/17/05	650	#2005028880	5/16/05	Instr. #200504384		5/18/05	0522	1289
Fortieth Supplemental											0536	
	12/23/05	2005-1	521563	12/27/05	677	684	12/22/05	Instr. #200512620		12/22/05	#2005004922	0748
Forty-first Supplemental			25009			734						
	1/19/07	2007-1	#2007003204	1/11/07	724	#200700240	1/10/07	Instr. #200700387		1/10/07	0558	0959
Forty-second Supplemental			446608			178						
	12/17/07	2007-1	#2007057981	12/18/07	763	#200707447	12/17/07	Instr. #200713519		12/18/07	#2007	5154
Forty-third Supplemental						217						
	12/09/08	2008-1	320419	12/12/08	803	#220807546	12/09/08	Instr. #200818392		12/10/08	#2008	6990
Forty-fourth Supplemental			177314			786						
	07/10/09	2009-1	#2009024436	07/14/09	827	#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

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**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

**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-third Supplemental									
Forty-fourth Supplemental	07/10/09	0790	0674	07/13/09	544	184	07/09/09	1921	4
			#2009-3120			#2009003193			#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

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**EXHIBIT C**

County and  
Grantor

Company's  
Real Estate  
Index No.

Date of  
Deed

Book

Recorded  
Page

Tax Parcel  
I.D. Number

[See Attached]

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**EXHIBIT D**

The Original Indenture, redacted to delete property descriptions contained therein for property contained in Adams, Berks, Bradford, Bucks, Carbon, Chester, Clarion, Columbia, Crawford, Cumberland, Delaware, Forest, Juniata, Lackawanna, Lawrence, Lehigh, Luzerne, Mercer, Monroe, Montgomery, Northampton, Northumberland, Pike, Schuylkill, Snyder, Susquehanna, Venango, Warren, Wayne and Wyoming counties.

**Non-Employee Directors' Compensation for 2014**

At its regularly scheduled meeting on December 5, 2013, the Board of Directors of Aqua America, Inc., upon the recommendation of its Executive Compensation Committee, approved the following directors' compensation for 2014 for the non-employee directors of Aqua America, Inc.: (1) an annual cash retainer of \$45,000; (2) an annual cash retainer for the Chair of the Executive Compensation Committee of \$10,000; (3) an annual cash retainer for the Chair of the Audit Committee of \$10,000; (4) an annual cash retainer for the Chair of the Corporate Governance Committee, who also serves as the lead independent directors, of \$10,000; (5) a meeting fee of \$2,000 for each meeting of the Board of Directors; (5) a meeting fee of \$1,500 per meeting for meetings of the Board Committees; and (6) an annual stock grant to directors of \$50,000, rounded to the nearest 100 shares payable on the first of the month following the Annual Meeting of Shareholders. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board or Committee meetings.

**THIRD AMENDMENT TO CREDIT AGREEMENT**

THIS THIRD AMENDMENT TO CREDIT AGREEMENT is made as of this 25<sup>th</sup> day of November, 2013, 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”), pursuant to which Banks agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to \$100,000,000 (the “Loans”). The Loans are evidenced by Borrower’s Revolving Credit Notes in the aggregate principal face amount of \$100,000,000 (the “Notes”).

B. Borrower, Agent and Banks desire to extend the Termination Date of the facility and 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**. Effective on November 25, 2013 (the “Effective Date”) the Credit Agreement is hereby amended as follows:

(a) The definition of “**Compliance Authority**” is hereby deleted.

(b) The definitions of “**Anti-Terrorism Law**”, “**Covered Entity**”, “**Law**”, “**Reportable Compliance Event**”, “**Sanctioned Country**”, “**Sanctioned Person**” and “**Termination Date**” in Section 1.1 are each hereby amended and restated to read in full as follows:

“**Anti-Terrorism Laws**”: any Laws relating to terrorism, trade sanctions programs and embargoes, import/export licensing, money laundering or bribery, and any regulation, order, or directive promulgated, issued or enforced pursuant to such Laws, all as amended, supplemented or replaced from time to time.

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“Covered Entity”: (a) the Borrower, each of the Borrower’s Subsidiaries and all Guarantors and (b) each Person that, directly or indirectly, is in control of a Person described in clause (a) above. For purposes of this definition, control of a Person shall mean the direct or indirect (x) ownership of, or power to vote, 25% or more of the issued and outstanding equity interests having ordinary voting power for the election of directors of such Person or other Persons performing similar functions for such Person, or (y) power to direct or cause the direction of the management and policies of such Person whether by ownership of equity interests, contract or otherwise.

“Law”: any law(s) (including common law), constitution, statute, treaty, regulation, rule, ordinance, opinion, issued guidance, release, ruling, order, executive order, injunction, writ, decree, bond, judgment, authorization or approval, lien or award of or any settlement arrangement, by agreement, consent or otherwise, with any Governmental Body, foreign or domestic.

“Reportable Compliance Event”: any Covered Entity becomes a Sanctioned Person, or is charged by indictment, criminal complaint or similar charging instrument, arraigned, or custodially detained in connection with any Anti-Terrorism Law or any predicate crime to any Anti-Terrorism Law, or has knowledge of facts or circumstances to the effect that it is reasonably likely that any aspect of its operations is in actual or probable violation of any Anti-Terrorism Law.

“Sanctioned Country”: a country subject to a sanctions program maintained under any Anti-Terrorism Law.

“Sanctioned Person”: any individual person, group, regime, entity or thing listed or otherwise recognized as a specially designated, prohibited, sanctioned or debarred person, group, regime, entity or thing, or subject to any limitations or prohibitions (including but not limited to the blocking of property or rejection of transactions), under any Anti-Terrorism Law.

“Termination Date”: the earlier of (a) November 24, 2014 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein.

(c) Section 2.6(b) is hereby amended by deleting the reference to “seventy (70) basis points (0.70%)” and substituting therefor “sixty-five (65) basis points (0.65%).”

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(d) Section 3.21 is hereby amended and restated to read in full as follows:

“3.21 Anti-Money Laundering/International Trade Law Compliance. No Covered Entity is a Sanctioned Person. No Covered Entity, either in its own right or through any third party, (a) has any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person in violation of any Anti-Terrorism Law; (b) does business in or with, or derives any of its income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law; or (c) engages in any dealings or transactions prohibited by any Anti-Terrorism Law.

(e) Section 5.12 is hereby amended and restated to read in full as follows:

“5.12 Anti-Money Laundering International Trade Law Compliance. No Covered Entity will become a Sanctioned Person. No Covered Entity, either in its own right or through any third party, will (a) have any of its assets in a Sanctioned Country or in the possession, custody or control of a Sanctioned Person in violation of any Anti-Terrorism Law; (b) do business in or with, or derive any of its income from investments in or transactions with, any Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law; (c) engage in any dealings or transactions prohibited by any Anti-Terrorism Law or (d) use the Loans to fund any operations in, finance any investments or activities in, or make any payments to, a Sanctioned Country or Sanctioned Person in violation of any Anti-Terrorism Law. The funds used to repay the Loans will not be derived from any unlawful activity. Each Covered Entity shall comply with all Anti-Terrorism Laws.

(f) Section 7.1(c) is hereby amended and restated to read in full as follows:

“(c) The Borrower shall default in the observance or performance of any agreement contained in Section 5.12 or in Section 6 or any representation or warranty contained in Section 3.21 is or becomes false or misleading at any time.”

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.

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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

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(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.

(d) Borrower shall have paid to Agent for the benefit of Banks an additional fee of \$75,000 to be distributed to Banks pro rata in accordance with their Commitments.

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.

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(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/ Diana Moy Kelly  
Title: Treasurer

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

By: /s/ Meredith Jermann  
Title: VP

TD BANK, N.A.

By: /s/ John Callaghan  
Title: VP

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Leslie Broderick  
Title: SVP

THE HUNTINGTON NATIONAL BANK

By: /s/ Michael Kiss  
Title: VP

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AQUA PENNSYLVANIA, INC.

\$25,000,000 First Mortgage Bonds, 3.94% Series due 2031

\$25,000,000 First Mortgage Bonds, 4.61% Series due 2045

\$25,000,000 First Mortgage Bonds, 4.62% Series due 2046

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BOND PURCHASE AGREEMENT

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Dated as of October 24, 2013

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**AQUA PENNSYLVANIA, INC.**  
762 West Lancaster Avenue  
Bryn Mawr, Pennsylvania 19010-3489

\$25,000,000 First Mortgage Bonds, 3.94% Series due 2031

\$25,000,000 First Mortgage Bonds, 4.61% Series due 2045

\$25,000,000 First Mortgage Bonds, 4.62% Series due 2046

October 24, 2013

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, 3.94% Series due November 1, 2031 (the "*Series A Bonds*"), (ii) \$25,000,000 First Mortgage Bonds, 4.61% Series due November 1, 2045 (the "*Series A Bonds*") and (iii) \$25,000,000 First Mortgage Bonds, 4.62% Series due November 1, 2046 (the "*Series C Bonds*") and together with the Series A Bonds and the Series B 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-seven supplemental indentures and as further supplemented by the Forty-eighth Supplemental Indenture dated as of October 1, 2013 (such Forty-eighth 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-seven 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.

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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 October 24, 2013 or on such other Business Day thereafter on or prior to November 1, 2013 as may be agreed upon by the Company and the Purchasers. 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.

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*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.

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*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.

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*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 September 12, 2013, 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, 2012, 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.

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*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.

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*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.

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*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, 2013 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 2013 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 Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

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(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 twenty (20) 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 June 30, 2013, 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).

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*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.

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*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.

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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

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(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.

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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);

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(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;

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(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.

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*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.

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*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.

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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.

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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).

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*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.

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(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.

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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.

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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.

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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.

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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.

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*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.

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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

Its: Executive Vice President, Chief Financial Officer

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

JOHN HANCOCK LIFE INSURANCE COMPANY OF NEW  
YORK

By /s/ Pradeep Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director

JOHN HANCOCK LIFE & HEALTH INSURANCE COMPANY

By /s/ Pradeep Killamsetty

Name: Pradeep Killamsetty

Title: Managing Director

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AQUA PENNSYLVANIA, INC.

Bond Purchase Agreement

Accepted as of the date first written above.

THE LINCOLN NATIONAL LIFE INSURANCE COMPANY

By: Delaware Investment Advisers, a series of Delaware  
Management Business Trust, Attorney in Fact

By /s/ Karl H. Spaeth, Jr.

Name: Karl H. Spaeth, Jr.

Title: Vice President

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AQUA PENNSYLVANIA, INC.

Bond Purchase Agreement

Accepted as of the date first written above.

THRIVENT FINANCIAL FOR LUTHERAN

By /s/ Patricia Eitrheim

Name: Patricia Eitrheim

Title: Director

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AQUA PENNSYLVANIA, INC.

Bond Purchase Agreement

Accepted as of the date first written above.

UNITED INSURANCE COMPANY OF AMERICA  
EQUITABLE LIFE & CASUALTY INSURANCE COMPANY  
CATHOLIC UNITED FINANCIAL  
GREAT WESTERN INSURANCE COMPANY

By: Advantus Capital Management, Inc.

By /s/ James F. Geiger

Name: James F. Geiger

Title: Vice President

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**INFORMATION RELATING TO PURCHASERS**

NAME AND ADDRESS OF PURCHASER

PRINCIPAL AMOUNT OF  
BONDS TO BE PURCHASED

[NAME OF PURCHASER]

\$

- (1) All payments by wire transfer of immediately available funds to:  
with sufficient information to identify the source and application of such funds.
- (2) All notices of payments and written confirmations of such wire transfers:
- (3) All other communications:

SCHEDULE A  
(to Bond Purchase Agreement)

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**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)

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“*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.

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“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;

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(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.

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*“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.

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*“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.

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*“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**

<u>Company Name</u>	<u>State of Incorporation</u>	<u>% of Ownership (Direct &amp; Indirect)</u>
Aqua Pennsylvania, Inc.	Pennsylvania	100%
1. Little Washington Wastewater Company	Pennsylvania	100%
2. The Hawley Water Company*	Pennsylvania	90%
3. Honesdale Consolidated Water Company	Pennsylvania	100%

\* Partially owned by minority shareholders

SCHEDULE 5.4  
(to Bond Purchase Agreement)

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**FINANCIAL STATEMENTS**

1. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the year ended Dec 31, 2008 and 2007 (audited)
2. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the year ended Dec 31, 2009 and 2008 (audited)
3. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the year ended Dec 31, 2010 and 2009 (audited)
4. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the year ended Dec 31, 2011 and 2010 (audited)
5. Aqua Pennsylvania, Inc. Consolidated Financial Statements as of and for the year ended Dec 31, 2012 and 2011 (audited)
6. Aqua Pennsylvania, Inc. Report for Quarter Ended June 30, 2013

SCHEDULE 5.5  
(to Bond Purchase Agreement)

**SCHEDULE 5.15(A)  
EXISTING DEBT**

**Aqua Pennsylvania and Subsidiaries  
Schedule 5.15(a) - Existing Debt as of 6/30/13**

		<b>Outstanding Balance</b>
Unsecured Note	5.50%	2,132,180
Unsecured Note	5.64%	4,584,000
Unsecured Note	5.64%	4,489,000
Unsecured Note	5.64%	5,466,000
Unsecured Note	5.64%	5,461,000
Unsecured Note	5.66%	40,000,000
Unsecured Note	5.95%	10,000,000
Note	9.00%	187,158
<b>Total Unsecured Notes</b>		<b>102,319,338</b>
Tax Exempt (FGIC)	5.05%	14,000,000
Tax Exempt (AMBAC)	5.15%	25,000,000
Tax Exempt (FGIC)	5.00%	21,770,000
Tax Exempt (FGIC)	5.00%	24,165,000
Tax Exempt (FGIC)	5.00%	25,375,000
Tax Exempt-Bond Premium		516,331
Tax Exempt (FGIC)	5.00%	24,675,000
Tax Exempt-Bond Premium		239,412
Tax Exempt (FGIC)	5.00%	23,915,000
Tax Exempt (FGIC)	5.00%	23,915,000
Tax Exempt-Bond Premium		1,751,740
Tax Exempt (No Ins. - S&P)	5.25%	24,830,000
Tax Exempt	5.25%	24,830,000
Tax Exempt-Bond Premium		284,940
Tax Exempt	6.25%	9,000,000
Tax Exempt	6.75%	13,000,000
Tax Exempt-Bond Discount		(86,700)
Tax Exempt	5.00%	58,000,000
Tax Exempt-Bond Discount		(1,757,811)
Tax Exempt	5.00%	62,165,000
Tax Exempt-Bond Premium		538,184
Tax Exempt	4.75%	12,520,000
Tax Exempt-Bond Discount		(263,418)
Tax Exempt	5.00%	25,910,000
Tax Exempt	5.00%	19,270,000

SCHEDULE 5.15(a)  
(to Bond Purchase Agreement)

		<b>Outstanding Balance</b>
Tax Exempt-Bond Discount		(119,107)
Tax Exempt	4.50%	15,000,000
Tax Exempt-Bond Discount		(564,000)
Tax Exempt	5.00%	81,205,000
Tax Exempt-Bond Premium		<u>2,380,650</u>
<b>Total Tax Exempt Bonds</b>		<b>531,465,221</b>
Penn Vest	1.372%	643,593
Penn Vest	1.274%	1,079,172
Penn Vest	1.274%	396,686
Penn Vest	1.559%	1,059,138
Penn Vest	1.274%	921,155
Penn Vest	1.274%	307,606
Penn Vest	1.000%	2,790,954
Penn Vest	1.000%	1,115,874
Penn Vest	3.237%	377,423
Penn Vest	2.400%	78,246
Penn Vest	3.237%	182,090
Penn Vest	1.000%	52,958
Penn Vest	2.842%	2,427,947
Penn Vest	1.000%	204,210
Penn Vest	2.400%	204,699
Penn Vest	3.237%	580,206
Penn Vest	1.551%	635,049
Penn Vest	2.752%	5,923,556
Penn Vest	2.774%	460,958
Penn Vest	1.387%	1,922,253
Penn Vest	3.237%	331,266
Penn Vest	3.003%	1,193,328
Penn Vest	3.045%	677,361
Penn Vest	2.774%	811,383
Penn Vest	1.387%	1,066,485
Penn Vest	2.769%	3,945,692
Penn Vest	2.702%	226,409
Penn Vest	2.556%	1,692,762
Penn Vest	1.278%	901,660
Penn Vest	1.278%	1,069,517
Penn Vest	1.274%	410,677
Penn Vest	2.270%	1,204,947
Penn Vest	1.274%	1,221,431
Penn Vest	1.274%	908,771
Penn Vest	1.274%	682,528
Penn Vest	2.464%	1,486,692

5.15(a)-2

		<b>Outstanding Balance</b>
Penn Vest	1.274%	124,491
Penn Vest	1.000%	6,731,642
Penn Vest	2.501%	404,075
Penn Vest	1.380%	3,204,266
Penn Vest	1.362%	1,474,543
Penn Vest	1.274%	940,625
Penn Vest	1.000%	398,628
Penn Vest	1.387%	216,645
Penn Vest	1.387%	199,561
Penn Vest	1.942%	751,846
Penn Vest	2.774%	5,357,835
Penn Vest	1.387%	1,321,412
Penn Vest	1.000%	406,975
Penn Vest	1.387%	1,467,138
Penn Vest	2.568%	1,749,661
Penn Vest	1.274%	1,463,236
<b>Total PennVest</b>		<b>65,407,261</b>
FMB	5.08%	20,000,000
FMB	5.17%	7,000,000
FMB	5.751%	15,000,000
FMB	5.751%	5,000,000
FMB	5.98%	3,000,000
FMB	6.06%	15,000,000
FMB	6.06%	5,000,000
FMB	6.89%	12,000,000
FMB	7.72%	15,000,000
FMB-Shenango	8.14%	4,000,000
FMB	9.17%	3,600,000
FMB	9.29%	12,000,000
FMB	9.97%	5,000,000
FMB	3.79%	40,000,000
FMB	3.80%	20,000,000
FMB	3.85%	20,000,000
<b>Total First Mortgage Bonds</b>		<b>201,600,000</b>
Penn Vest - LWWW	1.00%	1,093,088
Penn Vest - LWWW	1.00%	124,361
Penn Vest - LWWW	1.00%	1,596,914
Penn Vest - LWWW	1.00%	649,570
Penn Vest - LWWW	1.000%	323,244
Penn Vest - LWWW	1.000%	150,843

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		<b>Outstanding Balance</b>
PennVest - LWWW	1.387%	273,895
PennVest - LWWW	3.336%	16,026
PennVest - LWWW	1.000%	732,270
<b>Total PennVest LWWW</b>		<b>4,960,212</b>
<b>Total Long Term Debt</b>		<b>905,752,031</b>
<b>PNC Revolver</b>		<b>95,006,266</b>
<b>PNC Uncommitted line</b>		<b>8,000,000</b>
<b>Total Debt Aqua Pennsylvania</b>		<b>1,008,758,297</b>

5.15(a)-4

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**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 as Amended and Dated as of November 26, 2012

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

SCHEDULE 5.15(b)  
(to Bond Purchase Agreement)

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**[FORM OF SUPPLEMENT]**

[SEE ATTACHED]

EXHIBIT A  
(to Bond Purchase Agreement)

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**FORM OF OPINION OF SPECIAL COUNSEL**

**TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(a)(i)  
(to Bond Purchase Agreement)

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**FORM OF OPINION OF GENERAL COUNSEL**

**TO THE COMPANY**

[SEE ATTACHED]

EXHIBIT 4.4(a)(ii)  
(to Bond Purchase Agreement)

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**FORM OF OPINION OF SPECIAL COUNSEL  
TO THE PURCHASERS**

[DELIVERED TO PURCHASERS ONLY]

EXHIBIT 4.4(b)  
(to Bond Purchase Agreement)

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED DECEMBER 31, 2013

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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," "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;
- 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 repair tax deductions;
- our determination of what qualifies as a capital cost versus a repair expense tax deduction;
- 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 plan 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;
- our determination of what qualifies for a repair expense tax deduction;
- 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;

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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 or other 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. is the holding company for regulated utilities providing water or wastewater services to what we estimate to be almost 3 million people concentrated in Pennsylvania, Ohio, Texas, Illinois, North Carolina, New Jersey, Indiana, and Virginia. Our largest operating subsidiary is Aqua Pennsylvania, Inc. ("Aqua Pennsylvania"), which accounted for approximately 54% of our operating revenues and a larger percentage of our net income for 2013, and, as of December 31, 2013, provided water or wastewater services to approximately one-half of the total number of people we serve 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, 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, backflow prevention, construction, and other non-regulated water and wastewater services, and the Company's non-regulated subsidiary, Aqua Infrastructure, provides non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry.

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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)*

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 ("American Water") 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 has extended our regulated utility operations from southeastern Pennsylvania to include our current operations in seven other states.

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 2012, we sold our utility operations in Maine and New York, 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, we acquired additional utility systems (and customers) in Ohio and Texas, two of the larger states in Aqua America's portfolio. In 2012, we began to market for sale our Florida utility operations and our wastewater treatment facility in Georgia. The sale of our regulated utility operations in Florida concluded in 2013, and the Company continues to pursue a sale of its Georgia operations.

The operating results, cash flows, and financial position of the Company's Maine, New York, Florida, and Georgia 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 marks an expansion of our growth venture in serving 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 regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The regulatory commissions also generally establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and other financings, and the franchise areas that we serve. The policies of the regulatory 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 government. Over time, the regulatory party in a particular state may change, as is the case for our Texas operations, in 2014, where economic regulation changes 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, infrastructure rehabilitation surcharge mechanisms, and other regulatory policies, that promote infrastructure investment and efficiency in processing rate cases.

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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)

**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, communication costs, 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 regulatory 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 61 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 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. Seven of the states in which we operate permit us to file a revenue requirement using some form of consolidated rates for some or all of the rate divisions in that state. As of December 31, 2013, we have five active rate proceedings in five of our eight states proposing an aggregate annualized rate increase of \$16,976.

**Revenue Surcharges** – Five states in which we operate water utilities, and three 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. The infrastructure rehabilitation surcharge mechanism 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 that provide specific stay-out provisions which require us to wait for a period of time to file the next base rate increase request. These stay-out provisions 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 2013, 2012, and 2011, 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 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. 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 2013, we completed 15 acquisitions and other growth ventures, which along with the organic growth in our existing systems, represent 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 represent 11,070 new customers. In June 2011, we completed our acquisition of approximately 51 water and five wastewater systems in Texas serving approximately 5,300 customers. In addition to our Texas acquisition, during 2011, we completed eight acquisitions and other growth ventures, which along with the organic growth in our existing systems represent 3,962 new customers.

In addition to acquisitions, from time to time, we sell utility systems or relinquish ownership in systems through condemnation. In 2011, 2012, and 2013 consistent with our strategy to evaluate our individual utility systems, we divested our operations in four states: Missouri in May 2011, Maine in January 2012, New York in May 2012, and Florida in separate transactions in March, April, and December of 2013. In related transactions, with respect to the sale of our Missouri operations, and with respect to the sale of our New York operations, we acquired additional utility systems (and additional customers) in Texas and in Ohio, which resulted in a net increase in customers of approximately 10,000. In addition to the dispositions mentioned above, we sold the following utility systems: in 2013 we sold three utility systems representing 1,763 customers, in 2012 we sold two utility systems representing 1,139 customers, and in 2011 we sold three utility systems representing 2,179 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 5,000 wastewater facilities in operation in the states where we operate regulated utilities.

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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;
- 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, such as 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 of all sizes 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, and growth opportunities provided by both meeting the needs of industrial facilities and the natural gas drilling industry, with a current focus on serving the raw water needs of drillers.

**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 regulatory 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.

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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, 2013, our operating revenues were derived principally from the following states: approximately 54% in Pennsylvania, 12% in Ohio, 9% in Texas, 7%, 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. 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" or "efficiency 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 efficiency ratio can be impacted by the timeliness of recovery of, and the return on capital investments. The efficiency 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), or 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 repair expenses for tax purposes that are capitalized for book purposes in Aqua Pennsylvania and forgoing operating revenue increases. During periods of inflation, our operations and maintenance expenses may increase, impacting the efficiency ratio, as a result of regulatory lag since our rate cases may not be filed timely nor are they 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 the Aqua America 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 that provide 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 sewer line repair service and protection solutions to households, backflow prevention, construction, and other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. The cost-structure of these non-regulated businesses differs from our utility companies in that, although they may generate free cash flow, these businesses 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 ratio of operating income compared to operating revenues is not comparable between the businesses. These non-regulated subsidiary companies are not a component of our Regulated segment.

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We continue to evaluate initiatives to help control operating costs and improve efficiencies.

**Consolidated Selected Financial and Operating Statistics**

Our selected five-year consolidated financial and operating statistics follow:

Years ended December 31,	2013 (1)	2012 (2)	2011 (3)	2010	2009 (4)
<b>Utility customers:</b>					
Residential water	784,100	778,350	723,649	719,812	712,619
Commercial water	39,513	39,079	35,078	34,649	34,261
Industrial water	1,369	1,374	1,213	1,226	1,222
Other water	17,320	16,730	15,762	15,376	16,242
Wastewater	98,705	95,044	84,978	86,108	84,041
<b>Total utility customers</b>	<b>941,007</b>	<b>930,577</b>	<b>860,680</b>	<b>857,171</b>	<b>848,385</b>
<b>Operating revenues:</b>					
Residential water	\$463,156	\$447,338	\$408,904	\$391,922	\$356,265
Commercial water	121,615	117,992	105,837	99,632	89,520
Industrial water	25,442	25,015	21,576	20,716	18,723
Other water	57,699	70,922	65,118	63,369	64,039
Wastewater	73,062	68,225	62,780	62,156	58,577
Other utility	10,303	10,538	10,712	10,973	11,139
<b>Regulated segment total</b>	<b>751,277</b>	<b>740,030</b>	<b>674,927</b>	<b>648,768</b>	<b>598,263</b>
Other and eliminations	17,366	17,730	12,364	11,418	11,634
<b>Consolidated</b>	<b>\$768,643</b>	<b>\$757,760</b>	<b>\$687,291</b>	<b>\$660,186</b>	<b>\$609,897</b>
Operations and maintenance expense	\$285,340	\$271,843	\$256,743	\$250,989	\$239,905
<b>Income from continuing operations</b>	<b>\$204,993</b>	<b>\$184,087</b>	<b>\$141,683</b>	<b>\$116,379</b>	<b>\$ 98,440</b>
<b>Net income attributable to common shareholders</b>	<b>\$221,300</b>	<b>\$196,563</b>	<b>\$143,069</b>	<b>\$123,975</b>	<b>\$104,353</b>
<b>Capital expenditures</b>	<b>\$308,171</b>	<b>\$347,985</b>	<b>\$325,808</b>	<b>\$308,134</b>	<b>\$266,190</b>
<b>Operating Statistics</b>					
<b>Selected operating results as a percentage of operating revenues:</b>					
Operations and maintenance	37.1%	35.9%	37.4%	38.0%	39.3%
Depreciation and amortization	16.2%	15.4%	15.8%	16.9%	17.6%
Taxes other than income taxes	6.9%	6.3%	6.0%	6.1%	6.1%
Interest expense, net	10.1%	10.3%	11.3%	11.1%	10.9%
Income from continuing operations	26.7%	24.3%	20.6%	17.6%	16.1%
<b>Return on Aqua America stockholders' equity</b>	<b>14.4%</b>	<b>14.2%</b>	<b>11.4%</b>	<b>10.6%</b>	<b>9.4%</b>
<b>Ratio of capital expenditures to depreciation expense</b>	<b>2.6</b>	<b>3.1</b>	<b>3.2</b>	<b>3.1</b>	<b>2.8</b>
<b>Effective tax rate (5)</b>	<b>10.0%</b>	<b>26.6%</b>	<b>32.8%</b>	<b>39.2%</b>	<b>39.3%</b>

- (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) Net income attributable to common shareholders includes the gain of \$605 (\$1,009 pre-tax) realized on the sale of a utility system. The gain is reported in the 2009 consolidated statement of net income as a reduction to operations and maintenance expense.
- (5) See Results of Operations – Income Taxes for a discussion of the effective tax rate change for 2013 and 2012.

## RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 16.4% and our net income has grown at an annual compound rate of approximately 17.7% during the five-year period ended December 31, 2013. During the past five years, operating revenues grew at a compound rate of 6.0% and total expenses, exclusive of income taxes, grew at a compound rate of 5.5%. In addition, as a result of the implementation of the repair tax accounting change in 2012, the Company's provision for income taxes decreased by \$40,936 or 64.3% for the five-year period ended December 31, 2013.

### 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 the businesses that provide 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, offer, through a third party, water and sewer line repair service and protection solutions to households, backflow prevention, other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. 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, 2013, 2012, and 2011:

	2013			2012		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$751,277	\$ 17,366	\$ 768,643	\$740,030	\$ 17,730	\$ 757,760
Operations and maintenance expense	272,758	12,582	285,340	259,847	11,996	271,843
Taxes other than income taxes	51,106	2,162	53,268	45,450	1,954	47,404
Earnings before interest, taxes, depreciation and amortization	<u>\$427,413</u>	<u>\$ 2,622</u>	430,035	<u>\$434,733</u>	<u>\$ 3,780</u>	438,513
Depreciation and amortization			124,793			116,996
Operating income			305,242			321,517
Interest expense, net of AFUDC			75,042			73,615
Gain on sale of other assets			(148)			(1,090)
Equity losses (earnings) in joint venture			2,665			(1,976)
Provision for income taxes			22,690			66,881
Income from continuing operations			204,993			184,087
Income from discontinued operations, net of income taxes of \$8,425 and \$8,017, respectively			16,307			12,476
Net income			<u>\$ 221,300</u>			<u>\$ 196,563</u>

	2011		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$674,927	\$ 12,364	\$ 687,291
Operations and maintenance expense	243,137	13,606	256,743
Taxes other than income taxes	39,677	1,772	41,449
Earnings (losses) before interest, taxes, depreciation and amortization	<u>\$392,113</u>	<u>\$ (3,014)</u>	389,099
Depreciation and amortization			108,300
Operating income			280,799
Interest expense, net of AFUDC			70,654
Gain on sale of other assets			(649)
Provision for income taxes			69,111
Income from continuing operations			141,683
Income from discontinued operations, net of income taxes of \$12,893			1,386
Net income			<u>\$ 143,069</u>

**Consolidated Results**

**Operating Revenues** – 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 approximately \$25,676 in 2013, \$39,987 in 2012, and \$37,988 in 2011. Negatively impacting our revenue growth in 2013 was a decrease in customer water consumption and a decrease in infrastructure rehabilitation surcharges of \$12,725 primarily in Pennsylvania, and in 2012 was a slight decline in water consumption as compared to the prior year. 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 3.1% over the past three years, adjusted to exclude customers associated with utility system dispositions, due to acquisitions and organic growth. Acquisitions in our Regulated segment have provided additional water and wastewater revenues of approximately \$16,200 in 2013, \$28,296 in 2012, and \$3,960 in 2011.

On June 7, 2012, the Pennsylvania Public Utility Commission (“PAPUC”) 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 Distribution System Improvement Charges (“DSIC”) or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase, and the DSIC was reset to zero. In addition, the rate case settlement provided for the flow-through accounting treatment 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 (the “Repair Change”). In December 2012, Aqua Pennsylvania implemented the Repair Change which resulted in the net recognition of 2012 income tax benefits of \$33,565, which reduced the Company’s Federal and state income tax expense and flowed-through to net income in the fourth quarter of 2012. In 2013, the Company recorded additional income tax benefits of \$14,908, as adjusted for the 2012 tax return. Similar to 2012, the Company recorded \$45,647 of income tax benefits in 2013. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012 (the “catch-up adjustment”), and based on the settlement agreement, beginning in 2013, the Company began to amortize 1/10<sup>th</sup> of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized \$15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company’s net income. Also, as a result of the Repair Change, the fourth quarter 2012 DSIC 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 a DSIC in 2013.

In August 2013, the Company’s operating subsidiary in North Carolina filed an application with the North Carolina Utilities Commission designed to increase water and wastewater rates by \$8,611 or 19.2% on an annual basis. The amount of the final rate award that might be granted by the North Carolina Utilities Commission can vary significantly from the amount requested. The Company anticipates a final order to be issued in May 2014.

In February 2012, two of the Company’s operating divisions in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality (the “TCEQ”). The additional revenue billed and collected prior to the TCEQ’s final ruling was subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on June 3, 2013, and no refunds of revenue previously billed and collected were required.

Our operating subsidiaries, excluding the 2012 Pennsylvania water rate award, discussed above, received rate increases representing estimated annualized revenues of \$9,431 in 2013 resulting from six rate decisions, \$17,923 in 2012 resulting from nine rate decisions, and \$6,311 in 2011 resulting from twelve rate decisions. Revenues from these increases realized in the year of grant were \$8,169 in 2013, \$13,754 in 2012, and \$3,312 in 2011. As of December 31, 2013, excluding the North Carolina rate request discussed above, our operating subsidiaries currently have filed four rate requests, which are being reviewed by the state regulatory commissions, proposing an aggregate increase of \$8,425 in annual revenues. During 2014, we intend to file three additional rate requests proposing an aggregate of approximately \$3,425 of increased annual revenues; the timing and extent to which our rate increase requests may be granted will vary by state.

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Currently, Pennsylvania, Ohio, Illinois, Indiana, and New Jersey allow for the use of infrastructure rehabilitation surcharges. In Pennsylvania, this mechanism is referred to as a DSIC. The rate increases under these surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. Infrastructure rehabilitation surcharges are capped as a percentage of base rates, generally at 5% to 12.75% of base rates, and are 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. Infrastructure rehabilitation surcharges provided revenues of \$3,205 in 2013, \$15,911 in 2012, and \$15,937 in 2011. The decrease in infrastructure rehabilitation surcharges for 2013 resulted primarily from the January 1, 2013 suspension of Aqua Pennsylvania's DSIC as a result of the implementation of the Repair Change.

In 2012, Aqua Pennsylvania decided to adopt the repair tax accounting change on Aqua America's 2012 federal income tax return to be filed in September 2013. The change, which was contemplated under our subsidiary's June 2012 rate order, allows a tax deduction for qualifying utility asset improvements that were formerly capitalized and depreciated for book and tax purposes. As a result of Aqua Pennsylvania's implementing this tax accounting change, the DSIC was suspended for 2013 for Aqua Pennsylvania due to the anticipated earnings level to be achieved. This tax accounting change and its flow-through treatment under the Pennsylvania rate order offset the impact of the 2013 DSIC suspension through a substantial reduction in income tax expense and greater net income and cash flow.

Our Regulated segment also includes non-regulated operating revenues of \$10,303 in 2013, \$10,538 in 2012, and \$10,712 in 2011. These operating revenues are 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 had other non-regulated revenues that were primarily associated with providing 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, offering, through a third party, water and sewer line repair service and protection solutions to households, backflow prevention, construction, other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry of \$17,712 in 2013, \$18,247 in 2012, and \$12,604 in 2011.

**Operations and Maintenance Expenses** – Operations and maintenance expenses totaled \$285,340 in 2013, \$271,843 in 2012, and \$256,743 in 2011. 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, and insurance and claims costs. 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 2013 as compared to 2012 by \$13,497 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, offset by a decrease in water production costs of \$4,396 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.

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Operations and maintenance expenses increased in 2012 as compared to 2011 by \$15,100 or 5.9%, primarily due to increases in operating costs associated with acquired utility systems and other growth ventures of \$13,080, the effect of the gains on the sales of our utility system recognized during 2011 of \$5,058, an increase in insurance expense of \$2,677, an increase in post-retirement benefits expenses of \$2,217, an increase in stock-based compensation of \$1,684, and normal increases in other operating costs. Offsetting these increases were decreases in water production costs of \$5,732, and the effect of the recognition of a regulatory asset resulting from a completed rate case which reduced operations and maintenance expense by \$3,356. The decrease in water production costs results primarily from a decrease in the contractual rate of one of our purchased water contracts, and the non-renewal of another purchased water contract.

**Depreciation and Amortization Expenses** – Depreciation expense was \$119,258 in 2013, \$111,767 in 2012, and \$103,412 in 2011, 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.

Amortization expense was \$5,535 in 2013, \$5,229 in 2012, and \$4,888 in 2011, and increased in 2013 and 2012 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 \$53,268 in 2013, \$47,404 in 2012, and \$41,449 in 2011. The increase in 2013 is primarily due to an increase in property taxes of \$4,214 associated with our Ohio acquisition, an increase in gross receipt, excise and franchise taxes of \$1,797 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, offset by a decrease in capital stock taxes of \$1,069 associated with a decrease in capital stock taxes assessed for Aqua Pennsylvania. The increase in 2012 is primarily due to an increase in property taxes of \$4,932, gross receipts, excise and franchise taxes of \$652, and payroll taxes of \$526 resulting primarily from the partial year effect of our Ohio acquisition, offset by a decrease in capital stock taxes of \$363 for Aqua Pennsylvania.

**Interest Expense, net** – Net interest expense was \$77,316 in 2013, \$77,757 in 2012, and \$77,804 in 2011. Interest income of \$438 in 2013, \$372 in 2012, and \$757 in 2011 was netted against interest expense. Net interest expense decreased in 2013 primarily due to a decline in average short-term borrowings of \$43,666, offset by an increase in average outstanding fixed rate long-term debt of \$40,926, as well as a decline in long and short term interest rates. Net interest expense decreased in 2012 primarily due to a decline in short-term interest rates and the refinancing of existing debt at lower interest rates. Interest income decreased in 2012 due to lower investment rates and lower balances on the proceeds from the issuance of tax-exempt bonds held by trustees pending the draw-down for projects financed with the issuances. The interest income earned on the proceeds from the issuance of tax-exempt bonds is capitalized through our allowance for funds used during construction, a reduction to net interest expense. The weighted average cost of fixed rate long-term debt was 5.00% at December 31, 2013, 5.06% at December 31, 2012, and 5.30% at December 31, 2011. The weighted average cost of fixed and variable rate long-term debt was 5.00% at December 31, 2013, 4.81% at December 31, 2012, and 5.17% at December 31, 2011.

**Allowance for Funds Used During Construction** – The allowance for funds used during construction ("AFUDC") was \$2,274 in 2013, \$4,142 in 2012, and \$7,150 in 2011, and has varied over the years as a result of changes in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, changes in the AFUDC rate which is based predominantly on short-term interest rates, and changes in the average balance of the proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects. The decreases in 2013 and 2012 are due to decreases of \$43,561 and \$63,178, respectively, in the average balance of proceeds held from tax-exempt bond issuances that are restricted to funding specific capital projects.

**Gain on Sale of Other Assets** – Gain on sale of other assets totaled \$148 in 2013, \$1,090 in 2012, and \$649 in 2011, and consists of the sales of properties and marketable securities.

**Equity Loss (Earnings) in Joint Venture** – Equity loss (earnings) in joint venture totaled \$2,665 in 2013 and \$(1,976) in 2012. The decrease in 2013 reflects a decline in water sales, due to sluggish well drilling activity, in connection with serving the raw water needs of firms, with which we enter into a water supply contract, in the natural gas drilling industry.

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**Income Taxes** – Our effective income tax rate was 10.0% in 2013, 26.6% in 2012, and 32.8% in 2011. The decrease in the effective tax rate for 2013 and 2012 was primarily due to the 2012 change in the Company's repair tax accounting method for repair expenditures at Aqua Pennsylvania which resulted in a \$67,918 and \$33,565 net reduction to the Company's 2013 and 2012 Federal and state income tax expense. As of December 31, 2013, the Company has an unrecognized tax benefit related to the Company's Repair Change, of which \$9,795 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,		
	2013	2012	2011
Operating income	\$305,242	\$321,517	\$280,799
Income from continuing operations	\$204,993	\$184,087	\$141,683
Income from discontinuing operations	16,307	12,476	1,386
Net income attributable to common shareholders	<u>\$221,300</u>	<u>\$196,563</u>	<u>\$143,069</u>
Diluted income from continuing operations per share	\$ 1.16	\$ 1.05	\$ 0.82
Diluted income from discontinued operations per share	0.09	0.07	0.01
Diluted net income per share	1.25	1.12	0.83

The changes in the per share income from continuing operations in 2013 and 2012 over the previous years were due to the aforementioned changes and impacted by a 1.1% increase in the average number of common shares outstanding during 2013 and a 0.9% increase in the average number of common shares outstanding during 2012. The increase in the number of shares outstanding in 2013 and 2012 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 2013 increased by \$3,831 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 2012 recognition of charges incurred from the disposal of our New York subsidiary of \$2,090, and an asset impairment recognized in 2012, 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. Income from discontinued operations for 2012 increased by \$11,090 or \$0.06 per diluted share, in comparison to 2011 primarily as a result of the recognition in 2012 of the gain on sale of our Maine operating subsidiary, of \$17,699 (\$10,821 after-tax), the effect of the income tax expense recognized in 2011 of \$7,253 for the additional deferred tax liability that arose from the difference between the stock and tax basis of the Company's investment in its New York and Maine operating subsidiaries, a reduction in interest expense, net of tax, of \$1,120 as a result of debt assumed in 2012 by the acquirers in the sale of our New York and Maine operating subsidiaries, offset by charges incurred from the disposal of our New York subsidiary of \$2,090, and an asset impairment recognized in 2012, net of tax, of \$852.

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 repair tax eligible utility asset improvement costs are important to the future realization of improved profitability.

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**Fourth Quarter Results** – The following table provides our fourth quarter results:

	Three Months Ended December 31,	
	2013	2012
Operating revenues	\$ 188,608	\$ 187,481
Operations and maintenance	74,106	72,179
Depreciation	30,287	29,031
Amortization	1,632	1,456
Taxes other than income taxes	12,947	12,704
	<u>118,972</u>	<u>115,370</u>
Operating income	69,636	72,111
Interest expense, net	19,482	19,373
Allowance for funds used during construction	(806)	(658)
Gain on sale of other assets	(27)	(264)
Equity loss (earnings) in joint venture	933	(1,045)
Income before income taxes	50,054	54,705
Provision for income taxes	3,324	(10,429)
Income from continuing operations	46,730	65,134
Income from discontinued operations, net of income taxes of \$5,406 and \$259	10,802	1,421
Net income	<u>\$ 57,532</u>	<u>\$ 66,555</u>

The increase in operating revenues of \$1,127 was primarily a result of additional revenues of \$972 associated with a larger customer base due to acquisitions, an increase in customer water consumption, an increase in water and wastewater rates of \$616 from water and wastewater rates implemented in various operating subsidiaries, offset by a decrease in infrastructure rehabilitation surcharges of \$1,921. The increase in operations and maintenance expense of \$1,927 is due primarily to an increase in post-retirement benefits expenses of \$412, the recording of a reserve of \$412 for a long-lived asset, \$224 of additional operating costs associated with acquisitions, and normal increases in other operating expenses, offset by a decrease in water production costs of \$313. Depreciation expense increased by \$1,256 primarily due to the utility plant placed in service since December 31, 2012. Amortization expense increased by \$176 primarily due to the amortization of costs associated with, and other costs being recovered in, various rate filings. The increase in other taxes of \$243 is primarily due to an increase in property taxes of \$523, offset by a decrease in capital stock taxes of \$274 associated with a decrease in capital stock taxes assessed for Aqua Pennsylvania. Interest expense increased by \$109 due to an increase in our effective interest rate offset by a decrease in the average outstanding debt balance. Allowance for funds used during construction increased by \$148 primarily due to an increase in the average balance of utility plant construction work in process, to which AFUDC is applied. Gain on sale of other assets decreased by \$237 principally due to the timing of sales of land and other property. The decrease in equity loss (earnings) in joint venture of \$1,978 reflects a decline in water sales, due to sluggish well drilling activity, in connection with serving the raw water needs of firms, with which we enter into a water supply contract, in the natural gas drilling industry. The provision for income taxes increased by \$13,753 as a result of the effect of the adoption in the fourth quarter of 2012 of the full year 2012 net tax benefits recognized of \$33,565 resulting from our change in tax method of accounting associated with the Repair Change. Income from discontinued operations increased by \$9,381 primarily due to the gain on sale, net of taxes, of \$10,211 for our water and wastewater utility system in Sarasota, Florida in December 2013.

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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, 2013 were as follows:

	Net Operating Cash Flows	Common Dividends	Capital Expenditures	Acquisitions
2009	\$ 244,318	\$ 74,729	\$ 266,190	\$ 3,373
2010	244,717	80,907	308,134	8,625
2011	352,041	87,133	325,808	8,515
2012	377,485	93,423	347,985	121,248
2013	366,720	102,889	308,171	14,997
	<u>\$ 1,585,281</u>	<u>\$439,081</u>	<u>\$1,556,288</u>	<u>\$ 156,758</u>

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 \$25,135 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 sinking fund contributions and repaid debt in the amount of \$520,402, and have refunded \$24,271 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 2014 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 2013. The 2014 capital program is expected to include \$180,600 for infrastructure rehabilitation surcharge-qualified projects. Our planned capital program includes spending for infrastructure rehabilitation that may qualify for infrastructure rehabilitation surcharge mechanisms, 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 DSIC to zero resulting from the change in its tax method of accounting for repair tax deductions as described below. Although we were not eligible to use a DSIC with our Aqua Pennsylvania water customers in 2013, we were able to use the income tax savings derived from the Repair Change to continue to maintain a similar capital investment program as 2012. Our planned 2014 capital program in Pennsylvania is estimated to be \$231,000 a portion of which is expected to be eligible as a repair deduction for federal income tax purposes. Our overall 2014 capital program, along with \$86,288 of sinking fund obligations and debt maturities, and \$152,429 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 2015 through 2016, 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 \$641,000. We anticipate that less than one-half of these expenditures will require external financing. We expect to refinance \$94,545 of sinking fund obligations and debt maturities 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.

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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 borrowings. Over time, we partially repay or pay-down our short-term borrowings with 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 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. The repair 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 (the "Repair Change"). The Repair Change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of qualifying income tax benefits resulting from the Repair Change. As a result of this settlement agreement, the net 2012 income tax benefits of \$33,565 reduced the Company's Federal and state income tax expense and increased net income in the fourth quarter of 2012. In 2013, the Company recorded additional income tax benefits, as adjusted for the 2012 tax return, of \$14,908. Similar to 2012, the Company recorded \$45,647 of income tax benefits in 2013. 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 1/10<sup>th</sup> of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized \$15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company's net income.

Our planned 2014 capital program is projected to continue at a similar level compared to 2013, and the repair tax deduction is anticipated to continue in 2014 and beyond. Our 2014 earnings will be impacted by the following factors in Aqua Pennsylvania: the repair tax deduction in 2014 is expected to decrease income tax expense by a similar amount as 2013, and the ten year amortization of the catch-up adjustment is also expected to reduce income tax expense; offset by the effect on operating revenue as a result of the DSIC being reset to zero beginning January 1, 2013 and remaining at that level in 2014, and the effect of regulatory lag as we will likely not be filing a request for a base rate increase in Pennsylvania until after 2014. In addition, during 2013, additional income tax benefits were recognized of \$17,736, related to a change in the Company's tax method of accounting for qualifying utility system repairs in some non-Pennsylvania operating divisions, and we are continuing to evaluate the use of a Repair Change in other states where we operate, although the rate treatment afforded in operating divisions outside of Pennsylvania is not expected to have a direct impact on income tax expense.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Tax Relief Act") 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 the Tax Relief 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 flow-through treatment afforded by that state's regulatory commission, 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. The American Tax Relief Act of 2012 was enacted on January 2, 2013 and provided for an extension of the 50% bonus depreciation for qualifying capital additions for tax year 2013.

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### Acquisitions

During the past five years, we have expended cash of \$156,758 and issued 205,065 shares of common stock, valued at \$2,909 at the time of the acquisition, related to the acquisition of utility systems, both water and wastewater utilities, as well as investments in the natural gas drilling industry. 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 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. During 2009, we completed 18 acquisitions of water and wastewater systems in five of the states in which we operate, including expanding our operations into one new state. The 2009 acquisitions were completed for \$3,373 in cash and the issuance of 205,065 shares of common stock valued at \$2,909 at the time of the acquisition.

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. This project marks an expansion of our growth venture in serving the raw water needs of firms in the natural gas drilling industry. The joint venture has entered into water supply contract with natural gas drilling companies and negotiations continue with other area drilling companies. As of December 31, 2013, 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.

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**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 2010, 2011, 2012, and 2013, 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 five states: South Carolina, Missouri, Maine, New York, and Florida. With respect to the sale of our systems in Missouri and the sale of our systems in New York, we acquired additional utility systems in Texas and in Ohio.

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). One of our sales in Florida, which was completed in March 2013, and represented approximately 8% of our customers served in Florida, remains subject to customary regulatory review, for which we expect to receive the regulator's decision by midyear 2014. If the regulator does not approve this sale, the purchase price would be refunded and the assets sold would revert back to the Company.

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 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 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 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.

In June 2009, we sold a water and wastewater utility system for net proceeds of \$1,601, which was in excess of the book value for these assets. The proceeds were used to pay-down short-term debt and the sale resulted in the recognition in 2009 of a gain on the sale of these assets, net of expenses of \$1,009 (\$605 after-tax). The gain is reported in the 2009 consolidated statement of net income as a reduction to operations and maintenance expense. These utility systems represented approximately 0.02% of Aqua America's total assets.

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The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company's operating subsidiaries in Indiana, Utility Center, Inc., (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 are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the Northern Assets has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company's consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City, the amounts deferred will be recognized in the Company's consolidated statement of net income. On March 16, 2009, oral argument was held on procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. The Company disagreed with the Court's decision and appealed the Wells County Indiana Circuit Court's decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Supreme Court of Indiana ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, including the planned transaction below, which would resolve this litigation, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The Northern Assets relinquished represents approximately 0.4% 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 some 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. On July 2, 2013, the Company's operating subsidiary and the City signed a letter of intent, which among other items, addresses many of the terms by which the City would purchase the Company's Southern Assets, will resolve the litigation between the Company and the City with respect to the Northern Assets, and will establish the terms by which the Company's remaining operating subsidiary will treat wastewater sent to it by the City. The letter of intent states that the City agrees to pay the Company \$50,100 for the Northern Assets and Southern Assets in addition to the \$16,911 paid to the Company by the City in 2008 as an initial valuation payment for the Northern Assets (for a total payment of \$67,011). The letter of intent is conditioned on the Company's Board of Directors and City Council approving the final terms of the proposed transaction, and the Company and the City entering into several definitive agreements that detail the subject matter of the letter of intent. On February 27, 2014, the Company's Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company's Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. If this transaction is consummated, the Company will relinquish its water utility system yet expand its sewer customer base in the City. The completion of the transaction is not expected to close until the third quarter of 2014. The Company continues to evaluate its legal and operational options on an ongoing basis.

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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.

The Company is routinely involved in other 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.

#### **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 \$745,112 of long-term debt and obtained other short-term borrowings during the past five years. At December 31, 2013, we have a \$150,000 long-term revolving credit facility that expires in March 2017, of which \$24,428 was designated for letter of credit usage, \$125,572 was available for borrowing and no borrowings were outstanding at December 31, 2013. In addition, we have short-term lines of credit of \$160,500, of which \$123,760 was available. 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.

We are obligated to comply with covenants under some of our 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 2013, 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, which 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 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.

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 2013, 2012, 2011, and 2010, we did not issue any shares under the acquisition shelf registration. During 2009, we issued 205,065 shares of common stock totaling \$2,909 to acquire a water system. The balance remaining available for use under the acquisition shelf registration as of December 31, 2013 is 1,904,487 shares. We will determine the form and terms of any securities issued under these shelf registrations at the time of issuance.

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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. Under the direct stock purchase portion of the Plan, shares are sold 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 2013 dividend payment, holders of 13.1% 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 3,588,168 original issue shares of common stock for net proceeds of \$58,635 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 2013, 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 \$3,693.

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. As of December 31, 2013, 685,348 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

In May 2013 the Board of Directors approved a five-for-four stock split to be effected in the form of a 25% stock distribution to shareholders of record on August 16, 2013. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on September 1, 2013. Aqua America's par value of \$0.50 per share did not change as a result of the common stock distribution, and \$17,655 was transferred from capital in excess of par value to common stock to record the stock split.

**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.

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)

**Contractual Obligations**

The following table summarizes our contractual cash obligations as of December 31, 2013:

	Total	Payments Due By Period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt (1)	\$1,554,871	\$ 86,288	\$ 94,545	\$107,013	\$1,267,025
Interest on fixed-rate, long-term debt (2)	1,218,782	77,512	143,861	137,360	860,049
Operating leases (3)	21,809	2,659	3,468	1,790	13,892
Unconditional purchase obligations (4)	79,911	12,637	26,147	12,579	28,548
Other purchase obligations (5)	38,038	38,038	—	—	—
Pension and other post-retirement benefit plans' obligations (6)	20,638	20,638	—	—	—
Other obligations (7)	20,534	945	1,951	6,236	11,402
<b>Total</b>	<b>\$2,954,583</b>	<b>\$238,717</b>	<b>\$269,972</b>	<b>\$264,978</b>	<b>\$2,180,916</b>

- (1) Represents sinking fund obligations and debt maturities.
- (2) Represents interest payable on fixed rate, long-term debt. Amounts reported may differ from actual due to future refinancing of debt.
- (3) Represents operating leases that are noncancelable, before expiration, for the lease of motor vehicles, buildings, land and other equipment.
- (4) 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.
- (5) Represents an approximation of the open purchase orders for goods and services purchased in the ordinary course of business.
- (6) Represents contributions contractually obligated to be made to pension and other post-retirement benefit plans.
- (7) 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 2023 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 \$28,690. 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.

We will fund these contractual obligations with cash flows from operations and liquidity sources held by or available to us.

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, 2013, the debt maturities by period and the weighted average interest rate for long-term debt are as follows:

	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Long-term debt:								
Fixed rate	\$86,288	\$58,695	\$35,850	\$53,019	\$53,994	\$1,267,025	\$1,554,871	\$1,540,296
Variable rate	—	—	—	—	—	—	—	—
Total	<u>\$86,288</u>	<u>\$58,695</u>	<u>\$35,850</u>	<u>\$53,019</u>	<u>\$53,994</u>	<u>\$1,267,025</u>	<u>\$1,554,871</u>	<u>\$1,540,296</u>
Weighted average interest rate	5.18%	5.19%	4.81%	5.14%	6.32%	4.90%	5.00%	

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, 2013, the carrying value of these investments, which reflects market value, was \$196.

**Capitalization**

The following table summarizes our capitalization during the past five years:

December 31,	2013	2012	2011	2010	2009
Long-term debt (1)	50.3%	53.4%	54.8%	57.0%	56.6%
Aqua America stockholders' equity	49.7%	46.6%	45.2%	43.0%	43.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

- (1) Includes current portion, as well as our borrowings under a variable rate revolving credit agreement of \$0 at December 31, 2013 and \$100,000 at December 31, 2012.

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 69 years. Effective May 8, 2013, our Board of Directors authorized an increase of 8.6% in the September 1, 2013 quarterly dividend over the dividend we paid in the previous quarter. As a result of this authorization, beginning with the dividend payment in September 2013, the annualized dividend rate increased to \$0.608 per share from \$0.560 per share. This is the 23<sup>rd</sup> dividend increase in the past 22 years and the 15<sup>th</sup> 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 55.6% of net income attributable to common shareholders.

### 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 regulatory 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 FASB's 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 to 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 step 1 of the quantitative two-step goodwill impairment test. If we perform step 1 and determine that the fair value of a reporting unit is less than its carrying amount, we would perform step 2 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. Based on our comparison of the estimated fair value of each reporting unit to their respective carrying amounts, the impairment test performed in 2013 concluded that the estimated fair value of each reporting unit, which has goodwill recorded, exceeded the reporting unit's carrying amount by at least 55%, for reporting units that were tested quantitatively, indicating that none of our goodwill was impaired

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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)

**Accounting for Post-Retirement Benefits** — We maintain qualified defined benefit pension plans and plans that provide for post-retirement benefits other than pensions. 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 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 benefit expense that we recognize.

Our discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. 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 single rate that equates the market value of the bonds purchased to the discounted value of the plan's benefit payments. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by \$898 and the pension liabilities by \$10,270. The present values of Aqua America's future pension and other post-retirement obligations were determined using discount rates of 5.12% at December 31, 2013 and 4.17% at December 31, 2012. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 4.17% for 2013, and will be 5.12% for 2014. In 2012, our pension benefits were re-measured as of May 1, 2012 to reflect the pension benefits assumed in our Ohio acquisition. The 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 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 plan assets as of the last day of its fiscal year, and is a determinant for the expected return on assets, which is a component of net pension expense. Our pension expense increases as the expected return on assets decreases. A 25-basis-point reduction in this assumption would have increased 2013 pension expense by \$492. For 2013, we used a 7.50% expected return on assets assumption which will remain unchanged for 2014. The expected return on 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. We believe that our actual long-term asset allocation on average will approximate the targeted allocation. Our targeted allocation is driven by the 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.

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 2014 our pension contribution is expected to approximate \$17,875. 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. During 2014, our funding of other post-retirement benefit plans are expected to approximate \$2,763.

**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.

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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)*

Our determination of what qualifies as a capital cost versus a repair expense tax deduction as it relates to our repair 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 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.

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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* (1992). As a result of management's assessment and based on the criteria in the framework, management has concluded that, as of December 31, 2013, the Company's internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2013 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*

March 3, 2014

/s/ David P. Smeltzer

David P. Smeltzer  
*Executive Vice President and Chief Financial Officer*

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**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, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 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, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (“COSO”). The Company’s management is responsible for these financial statements, 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 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 consider 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  
March 3, 2014

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF NET INCOME  
(In thousands of dollars, except per share amounts)  
Years ended December 31, 2013, 2012, and 2011

	2013	2012	2011
Operating revenues	\$768,643	\$757,760	\$687,291
Operating costs and expenses:			
Operations and maintenance	285,340	271,843	256,743
Depreciation	119,258	111,767	103,412
Amortization	5,535	5,229	4,888
Taxes other than income taxes	53,268	47,404	41,449
	<u>463,401</u>	<u>436,243</u>	<u>406,492</u>
Operating income	305,242	321,517	280,799
Other expense (income):			
Interest expense, net	77,316	77,757	77,804
Allowance for funds used during construction	(2,274)	(4,142)	(7,150)
Gain on sale of other assets	(148)	(1,090)	(649)
Equity loss (earnings) in joint venture	2,665	(1,976)	—
Income from continuing operations before income taxes	227,683	250,968	210,794
Provision for income taxes	22,690	66,881	69,111
Income from continuing operations	204,993	184,087	141,683
Discontinued operations:			
Income from discontinued operations before income taxes	24,732	20,493	14,279
Provision for income taxes	8,425	8,017	12,893
Income from discontinued operations	16,307	12,476	1,386
Net income attributable to common shareholders	<u>\$221,300</u>	<u>\$196,563</u>	<u>\$143,069</u>
Income from continuing operations per share:			
Basic	<u>\$ 1.16</u>	<u>\$ 1.06</u>	<u>\$ 0.82</u>
Diluted	<u>\$ 1.16</u>	<u>\$ 1.05</u>	<u>\$ 0.82</u>
Income from discontinued operations per share:			
Basic	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.01</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.07</u>	<u>\$ 0.01</u>
Net income per common share:			
Basic	<u>\$ 1.26</u>	<u>\$ 1.13</u>	<u>\$ 0.83</u>
Diluted	<u>\$ 1.25</u>	<u>\$ 1.12</u>	<u>\$ 0.83</u>
Average common shares outstanding during the period:			
Basic	<u>176,140</u>	<u>174,201</u>	<u>172,727</u>
Diluted	<u>176,814</u>	<u>174,918</u>	<u>173,361</u>
Cash dividends declared per common share	<u>\$ 0.584</u>	<u>\$ 0.536</u>	<u>\$ 0.504</u>

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, 2013, 2012, and 2011

	2013	2012	2011
Net income attributable to common shareholders	\$221,300	\$196,563	\$143,069
Other comprehensive income, net of tax:			
Unrealized holding gain (loss) on investments, net of tax of \$76, \$106, and \$(5) for the years ended December 31, 2013, 2012, and 2011, respectively	141	198	(10)
Reclassification adjustment for loss (gain) reported in net income, net of tax (benefit) of \$(49), \$182, and \$125 for the twelve months ended December 31, 2013, 2012, and 2011, respectively (1)	90	(339)	(233)
<b>Comprehensive income</b>	<b><u>\$221,531</u></b>	<b><u>\$196,422</u></b>	<b><u>\$142,826</u></b>

See accompanying notes to consolidated financial statements.

- (1) Amount of pre-tax loss (gain) of \$139, \$(521), and \$(358) 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, 2013, 2012, and 2011, respectively.

See accompanying notes to consolidated financial statements.

AQUA AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
December 31, 2013 and 2012

	2013	2012
<b>Assets</b>		
Property, plant and equipment, at cost	\$5,387,852	\$5,050,400
Less: accumulated depreciation	<u>1,220,559</u>	<u>1,114,237</u>
Net property, plant and equipment	4,167,293	3,936,163
<b>Current assets:</b>		
Cash and cash equivalents	5,058	5,521
Accounts receivable and unbilled revenues, net	95,356	92,921
Income tax receivable	7,873	16,082
Deferred income taxes	40,038	37,818
Inventory, materials and supplies	11,438	11,757
Prepayments and other current assets	11,112	10,372
Assets of discontinued operations held for sale	794	86,423
Total current assets	<u>171,669</u>	<u>260,894</u>
Regulatory assets	585,600	521,264
Deferred charges and other assets, net	50,290	49,852
Investment in joint venture	48,695	38,620
Funds restricted for construction activity	47	23,572
Goodwill	<u>28,223</u>	<u>28,152</u>
	<u>\$5,051,817</u>	<u>\$4,858,517</u>
<b>Liabilities and Equity</b>		
<b>Aqua America stockholders' equity:</b>		
Common stock at \$.50 par value, authorized 300,000,000 shares, issued 177,928,922 and 175,985,437 in 2013 and 2012	\$ 88,964	\$ 70,472
Capital in excess of par value	743,335	718,482
Retained earnings	729,272	611,303
Treasury stock, at cost, 1,178,323 and 776,355 shares in 2013 and 2012	(27,082)	(14,668)
Accumulated other comprehensive income	346	115
Total Aqua America stockholders' equity	<u>1,534,835</u>	<u>1,385,704</u>
Noncontrolling interest	208	188
Total Equity	<u>1,535,043</u>	<u>1,385,892</u>
Long-term debt, excluding current portion	1,468,583	1,543,954
Commitments and contingencies (See Note 9)	—	—
<b>Current liabilities:</b>		
Current portion of long-term debt	86,288	45,038
Loans payable	36,740	80,383
Accounts payable	65,816	55,506
Accrued interest	13,615	14,026
Accrued taxes	15,442	28,214
Other accrued liabilities	34,193	27,360
Liabilities of discontinued operations held for sale	14,816	23,637
Total current liabilities	<u>266,910</u>	<u>274,164</u>
<b>Deferred credits and other liabilities:</b>		
Deferred income taxes and investment tax credits	867,880	723,367
Customers' advances for construction	74,257	71,595
Regulatory liabilities	281,014	241,363
Other	81,552	157,978
Total deferred credits and other liabilities	<u>1,304,703</u>	<u>1,194,303</u>
Contributions in aid of construction	<u>476,578</u>	<u>460,204</u>
	<u>\$5,051,817</u>	<u>\$4,858,517</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, 2013 and 2012

	2013	2012
Aqua America stockholders' equity:		
Common stock, \$.50 par value	\$ 88,964	\$ 70,472
Capital in excess of par value	743,335	718,482
Retained earnings	729,272	611,303
Treasury stock, at cost	(27,082)	(14,668)
Accumulated other comprehensive income	346	115
Total Aqua America stockholders' equity	<u>1,534,835</u>	<u>1,385,704</u>
Noncontrolling interest	208	188
Total equity	<u>1,535,043</u>	<u>1,385,892</u>
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
	1.00% to 1.99%	2014 to 2035
	2.00% to 2.99%	2024 to 2031
	3.00% to 3.99%	2016 to 2047
	4.00% to 4.99%	2020 to 2048
	5.00% to 5.99%	2014 to 2043
	6.00% to 6.99%	2015 to 2036
	7.00% to 7.99%	2022 to 2027
	8.00% to 8.99%	2021 to 2025
	9.00% to 9.99%	2018 to 2026
	10.00% to 10.99%	2018
		5,035
		28,615
		14,903
		167,365
		447,297
		284,362
		64,923
		35,056
		19,283
		28,500
		<u>6,000</u>
		<u>1,101,339</u>
Notes payable to bank under revolving credit agreement, variable rate, due March 2017		2,884
		27,251
		17,120
		107,477
		367,657
		320,729
		64,903
		35,660
		19,632
		34,547
		<u>6,000</u>
		<u>1,003,860</u>
Unsecured notes payable:		100,000
Notes at 3.57% due 2027		50,000
Notes ranging from 4.62% to 4.87%, due 2014 through 2024		171,400
Notes ranging from 5.01% to 5.95%, due 2014 through 2037		232,132
		<u>242,132</u>
		<u>1,554,871</u>
Current portion of long-term debt		1,588,992
		86,288
		<u>45,038</u>
Long-term debt, excluding current portion		<u>1,468,583</u>
Total capitalization	<u>\$3,003,626</u>	<u>\$2,929,846</u>

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, 2010	\$69,223	\$664,369	\$ 452,470	\$(12,307)	\$ 499	\$ 572	\$1,174,826
Net income	—	—	143,069	—	—	14	143,083
Purchase of subsidiary shares from noncontrolling interest	—	—	—	—	—	(82)	(82)
Other comprehensive loss, net of income tax of \$130	—	—	—	—	(243)	—	(243)
Dividends	—	—	(87,133)	—	—	—	(87,133)
Sale of stock (753,958 shares)	295	11,987	—	325	—	—	12,607
Repurchase of stock (51,431 shares)	—	—	—	(1,163)	—	—	(1,163)
Equity Compensation Plan (79,133 shares)	32	(32)	—	—	—	—	—
Exercise of stock options (530,613 shares)	212	6,391	—	—	—	—	6,603
Stock-based compensation	—	3,964	(72)	—	—	—	3,892
Employee stock plan tax benefits	—	(573)	—	—	—	—	(573)
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 gain, 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

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, 2013, 2012, and 2011

	2013	2012	2011
<b>Cash flows from operating activities:</b>			
Net income attributable to common shareholders	\$ 221,300	\$ 196,563	\$ 143,069
Income from discontinued operations	16,307	12,476	1,386
Income from continuing operations	<u>204,993</u>	<u>184,087</u>	<u>141,683</u>
<b>Adjustments to reconcile income from continuing operations to net cash flows from operating activities:</b>			
Depreciation and amortization	124,793	116,996	108,300
Deferred income taxes	26,742	77,563	72,110
Provision for doubtful accounts	4,712	4,805	4,854
Share-based compensation	5,066	5,550	3,852
Gain on sale of utility system	(1,025)	—	(5,058)
Gain on sale of other assets	(148)	(1,090)	(649)
Net decrease (increase) in receivables, inventory and prepayments	2,238	(7,543)	(3,864)
Net increase (decrease) in payables, accrued interest, accrued taxes and other accrued liabilities	(12,870)	13,641	421
Decrease (increase) in income tax receivable	8,209	(16,082)	33,600
Other	4,010	(442)	(3,208)
Operating cash flows from continuing operations	366,720	377,485	352,041
Operating cash flows from (used in) discontinued operations, net	1,099	(9,078)	14,806
Net cash flows from operating activities	<u>367,819</u>	<u>368,407</u>	<u>366,847</u>
<b>Cash flows from investing activities:</b>			
Property, plant and equipment additions, including the non-equity component of allowance for funds used during construction of \$1,741, \$3,954, and \$6,832	(308,171)	(347,985)	(325,808)
Acquisitions of utility systems and other, net	(14,997)	(121,248)	(8,515)
Release of funds previously restricted for construction activity	23,531	67,498	46,330
Additions to funds restricted for construction activity	(6)	(2,165)	(149)
Net proceeds from the sale of utility systems and other assets	5,315	3,819	13,404
Proceeds from note receivable	—	—	5,289
Investment in joint venture	(14,700)	(33,856)	(5,087)
Other	76	(1,512)	(946)
Investing cash flows used in continuing operations	(308,952)	(435,449)	(275,482)
Investing cash flows from (used in) discontinued operations, net	87,389	70,774	(9,422)
Net cash flows used in investing activities	<u>(221,563)</u>	<u>(364,675)</u>	<u>(284,904)</u>
<b>Cash flows from financing activities:</b>			
Customers' advances and contributions in aid of construction	5,119	7,033	3,558
Repayments of customers' advances	(4,429)	(6,064)	(3,686)
Net (repayments) proceeds of short-term debt	(43,643)	(27,388)	18,103
Proceeds from long-term debt	263,834	300,109	52,513
Repayments of long-term debt	(300,323)	(202,203)	(96,072)
Change in cash overdraft position	9,872	(10,929)	14,503
Proceeds from issuing common stock	10,290	13,190	12,607
Proceeds from exercised stock options	25,698	14,598	6,603
Share-based compensation windfall tax benefits	2,420	—	—
Repurchase of common stock	(12,823)	(1,464)	(1,163)
Dividends paid on common stock	(102,889)	(93,423)	(87,133)
Financing cash flows used in continuing operations	(146,874)	(6,541)	(80,167)
Financing cash flows from discontinuing operations, net	155	126	494
Net cash flows used in financing activities	<u>(146,719)</u>	<u>(6,415)</u>	<u>(79,673)</u>
Net (decrease) increase in cash and cash equivalents	(463)	(2,683)	2,270
Cash and cash equivalents at beginning of year	5,521	8,204	5,934
Cash and cash equivalents at end of year	<u>\$ 5,058</u>	<u>\$ 5,521</u>	<u>\$ 8,204</u>
<b>Cash paid during the year for:</b>			
Interest, net of amounts capitalized	\$ 75,453	\$ 74,152	\$ 71,640
Income taxes	<u>6,995</u>	<u>9,319</u>	<u>5,431</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.

Notes to Consolidated Financial Statements  
(In thousands of dollars, except per share amounts)

**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, Aqua Pennsylvania, Inc. (“Aqua Pennsylvania”), which accounted for approximately 54% of our operating revenues and a larger percentage of our net income for 2013, and provided water or wastewater services to customers 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, 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 sewer line repair service and protection solutions to households, backflow prevention, construction, and other non-regulated water and wastewater services, and the Company’s non-regulated subsidiary, Aqua Infrastructure, provides non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry.

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, 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. One of our sales in Florida which was completed in March 2013, and represented approximately 8% of our customers served in Florida, remains subject to customary regulatory review, for which we expect to receive the regulator’s decision by midyear 2014. If the regulator does not approve this sale, the purchase price would be refunded and the assets sold would revert back to the Company. 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. During the second quarter of 2011, we acquired all of American Water’s water and wastewater operations in Texas, which serve approximately 5,300 customers, and sold our regulated water and wastewater operations in Missouri, which served approximately 3,900 customers and concluded our regulated utility operations in Missouri. The operating results, cash flows, and financial position of the Company’s Maine, New York, Florida, and Georgia 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, two operating segments are not quantitatively significant to be reportable and are comprised of the businesses that provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies’ service territories as well as offers, through a third party, water and sewer line repair service and protection solutions to households, liquid waste hauling and disposal, backflow prevention, construction, and other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. 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.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

**Regulation** — Most of the operating companies that are regulated public utilities are subject to regulation by the regulatory commissions of the states in which they operate. The respective regulatory 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 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. All common share, per common share, stock unit, and per stock unit data, for all periods presented, has been adjusted to give effect to the September 1, 2013 five-for-four stock split effected in the form of a 25% stock distribution (See Note 12). Certain prior period amounts have been reclassified, including reporting discontinued operations (see Note 3), to conform to the current period presentation.

**Recognition of Revenues** — Revenues in our Regulated segment 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 has non-regulated revenues that are recognized when services are performed and are primarily associated with water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies' service territories as well as offers, through a third party, water and sewer line repair service and protection solutions to households, liquid waste hauling and disposal, backflow prevention, construction, and other non-regulated water and wastewater services, and non-utility raw water supply services for firms in the natural gas industry of \$17,366 in 2013, \$17,730 in 2012, and \$12,364 in 2011.

**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 utility plant, allowance for funds used during construction. Water systems acquired are 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 an acquisition adjustment within utility plant as permitted by the applicable regulatory jurisdiction. At December 31, 2013, utility plant includes a net credit acquisition adjustment of \$27,466, which is generally being amortized from 2 to 53 years, except where not permitted or appropriate. Amortization of the acquisition adjustments totaled \$2,641 in 2013, \$2,858 in 2012, and \$2,741 in 2011.

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 regulatory 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, 2013, \$10,293 of these costs have been incurred since the last rate proceeding and the Company expects to recover these costs in future rates.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

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, 2013, \$19,280 of these costs have been deferred, since the last 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.

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, 2013, 2012, and 2011, property, plant and equipment additions purchased at the period end, but not yet paid for are \$30,974, \$29,588, and \$32,578, 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 2013 was \$533, 2012 was \$188, and 2011 was \$318. 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 for specific disbursement cash accounts of \$21,753 and \$11,881 at December 31, 2013 and 2012, respectively. A book overdraft represents transactions that have not cleared the bank accounts at the end of the period. 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.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

**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 securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains 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 2013 and 2012 we received distributions of \$1,960 and \$2,744, 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 amounts are reported as funds restricted for construction activity and are expected to be released over time as the capital projects are funded.

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

**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 step 1 of the quantitative two-step goodwill impairment test. If we perform step 1 and determine that the fair value of a reporting unit is less than its carrying amount, we would perform step 2 to measure such impairment. The Company tested the goodwill attributable for each of our reporting units for impairment as of July 31, 2013, 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 by at least 55%, for reporting units that were tested quantitatively, 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, 2011	\$22,823	\$4,121	\$ 26,944
Goodwill acquired during year	1,679	—	1,679
Reclassifications to utility plant acquisition adjustment	(496)	—	(496)
Other	25	—	25
Balance at December 31, 2012	<u>24,031</u>	<u>4,121</u>	<u>28,152</u>
Goodwill acquired during year	552	—	552
Reclassifications to utility plant acquisition adjustment	(481)	—	(481)
Other	—	—	—
Balance at December 31, 2013	<u>\$24,102</u>	<u>\$4,121</u>	<u>\$ 28,223</u>

As of December 31, 2012 and 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 regulatory 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.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

In 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 (the "Repair Change"). The Repair Change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of qualifying income tax benefits resulting from the Repair Change. The Repair Change for 2013 and 2012 results in a significant reduction in the effective income tax rate, a reduction in 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, based on the settlement agreement, a ten year amortization of the income tax benefits, which reduces future income tax expense, commenced in 2013. During 2013, some of our other operating divisions outside of Pennsylvania adopted the Repair Change. These divisions do not employ a flow-through method of accounting 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 \$26,188, \$27,212, and \$20,823 in 2013, 2012, and 2011, 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 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.

Contributed property is generally not depreciated for rate-making purposes as some states' regulatory guidelines provide that contributions in aid of construction received must remain on the Company's consolidated balance sheet indefinitely. Based on regulatory conventions in other states where the Company operates, some of the subsidiaries do 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;

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- 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 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, 2013 and 2012.

**Recent Accounting Pronouncements**—In July 2013, the FASB issued updated 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 update requires an entity to present in certain cases, an unrecognized tax benefit, or portion of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward when settlement is available in this manner under the tax law. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2013, with early adoption permitted. The Company early adopted the provisions of the updated guidance beginning July 1, 2013, and the adoption of the revised guidance did not have an impact on the Company's consolidated results of operations or consolidated financial position.

In February 2013, the FASB issued updated accounting guidance to improve the reporting of reclassifications out of accumulated other comprehensive income ("AOCI"). The update requires an entity to present information about the amounts reclassified from AOCI in their financial statements in either a single note or parenthetically on the face of the financial statements. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted the provisions of the updated guidance for its reporting period beginning January 1, 2013, and the adoption of the revised guidance did not have an impact on the Company's consolidated results of operations or consolidated financial position.

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**Note 2 – Acquisitions**

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 \$2,103. The pro forma effect of the businesses acquired is not material 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 \$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 was not material to our results of operations for the years ended December 31, 2012 and 2011. 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
<b>Total assets acquired</b>	<b>135,651</b>
Current liabilities	3,409
Long-term debt, excluding current portion	14,233
Other long-term liabilities	15,855
<b>Total liabilities assumed</b>	<b>33,497</b>
Net assets acquired	<b>\$ 102,154</b>

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 \$4,033 in 2013 and \$1,527 in 2012. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

In June 2011, the Company completed its acquisition of approximately fifty-one water and five wastewater systems in Texas serving approximately 5,300 customers. The total purchase price consisted of \$6,245 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$3,408 in 2013, \$3,245 in 2012, and \$1,826 in 2011. The pro forma effect of the businesses acquired is not material to the Company's results of operations.

In addition to the Company's acquisition in Texas, during 2011, the Company completed eight acquisitions of water and wastewater utility systems in various states. The total purchase price consisted of \$2,270 in cash. The operating revenues included in the consolidated financial statements of the Company during the period owned by the Company were \$708 in 2013, \$644 in 2012, and \$226 in 2011. The pro forma effect of the businesses acquired in 2011 is not material to the Company's results of operations.

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**Note 3 – Discontinued Operations and Other Dispositions**

**Discontinued Operations**—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 waste water treatment facility 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. 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). One of the Company's sales in Florida, which was completed in March 2013, and represented approximately 8% of our customers served in Florida, remains subject to customary regulatory review, for which we expect to receive the regulator's decision by midyear 2014. If the regulator does not approve this sale, the purchase price would be refunded and the assets sold would revert back to the Company. The Company has accounted for these operations as business held for sale. The sale of the Company's wastewater operation in Georgia will conclude the Company's operations in this state.

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.

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.

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,		
	2013	2012	2011
Operating revenues	\$ 12,264	\$ 31,458	\$67,391
Total operating expenses	<u>8,710</u>	<u>24,286</u>	<u>49,617</u>
Operating income	3,554	7,172	17,774
Other (income) expense:			
Gain on sale	(21,178)	(14,718)	—
Other expenses, net	<u>—</u>	<u>1,397</u>	<u>3,495</u>
Income from discontinued operations before income taxes	24,732	20,493	14,279
Provision for income taxes	<u>8,425</u>	<u>8,017</u>	<u>12,893</u>
Income from discontinued operations	<u>\$ 16,307</u>	<u>\$ 12,476</u>	<u>\$ 1,386</u>

The assets and liabilities of discontinued operations presented in the consolidated balance sheets include the following:

	December 31,	
	2013	2012
Property, plant and equipment, at cost	\$ 319	\$128,463
Less: accumulated depreciation	<u>119</u>	<u>48,856</u>
Net property, plant and equipment	200	79,607
Current assets	594	4,656
Regulatory assets	—	2,034
Other assets	<u>—</u>	<u>126</u>
Assets of discontinued operations held for sale	794	86,423
Current liabilities	14,348	2,074
Deferred income taxes and investment tax credits	—	5,166
Contributions in aid of construction	—	15,560
Other liabilities	<u>468</u>	<u>837</u>
Liabilities of discontinued operations held for sale	<u>14,816</u>	<u>23,637</u>
Net (liabilities) assets	<u>\$ (14,022)</u>	<u>\$ 62,786</u>

**Other Dispositions**—The following dispositions have 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 systems as discontinued operations is meaningful to the reader of the financial statements for making investment decisions either individually or in the aggregate. The gains disclosed below are 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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AQUA AMERICA, INC. AND SUBSIDIARIES  
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In June 2011, the Company 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 systems represented approximately 0.03% of the Company's total assets.

In May 2011, the Company sold its regulated water and wastewater operations in Missouri for net proceeds of \$3,225. This sale of the Company's Missouri operations concluded its regulated utility operations in Missouri. The sale of the Company's utility operations in Missouri represented approximately 0.07% of the Company's total assets.

In January 2011, the Company 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 of these assets, net of expenses, of \$2,452 (\$1,471 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 0.01% of the Company's total assets.

The City of Fort Wayne, Indiana (the "City") has authorized the acquisition by eminent domain of the northern portion of the utility system of one of the Company's operating subsidiaries in Indiana, Utility Center Inc., (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 are in excess of the book value of the assets relinquished. No gain has been recognized due to the contingency over the final valuation of the assets. The net book value of the Northern Assets has been removed from the consolidated balance sheet and the difference between the net book value and the initial payment received has been deferred and is recorded in other accrued liabilities on the Company's consolidated balance sheet. Once the contingency is resolved and the asset valuation is finalized, through the finalization of the litigation between the Company and the City, the amounts deferred will be recognized in the Company's consolidated statement of net income. On March 16, 2009, oral argument was held on procedural aspects with respect to the valuation evidence that may be presented and whether the Company is entitled to a jury trial. On October 12, 2010, the Wells County Indiana Circuit Court ruled that the Company is not entitled to a jury trial, and that the Wells County judge should review the City of Fort Wayne Board of Public Works' assessment based upon a "capricious, arbitrary or an abuse of discretion" standard. The Company disagreed with the Court's decision and appealed the Wells County Indiana Circuit Court's decision to the Indiana Court of Appeals. On January 13, 2012, the Indiana Court of Appeals reached a decision upholding the Wells County Indiana Circuit Court decision. On February 10, 2012, the Company filed a petition for transfer requesting that the Indiana Supreme Court review the matter. On April 11, 2013, the Supreme Court of Indiana ruled that the statute at issue gives the Company the right to a full evidentiary hearing before a jury regarding the value of the assets and remanded the case to the trial court for a proceeding consistent with that ruling. The Company continues to evaluate its legal options with respect to this decision. Depending upon the outcome of all of the legal proceedings, including the planned transaction below, which would resolve this litigation, the Company may be required to refund a portion of the initial valuation payment, or may receive additional proceeds. The Northern Assets relinquished represents approximately 0.4% 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 some 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. On July 2, 2013, the Company's operating subsidiary and the City signed a letter of intent, which among other items, addresses many of the terms by which the City would purchase the Company's Southern Assets, will resolve the litigation between the Company and the City with respect to the Northern Assets, and will establish the terms by which the Company's operating subsidiary will treat wastewater sent to it by the City. The letter of intent states that the City agrees to pay the Company \$50,100 for the Northern Assets and Southern Assets in addition to the \$16,911 paid to the Company by the City in 2008 as an initial valuation payment for the Northern Assets (for a total payment of \$67,011). The letter of intent is conditioned on the Company's Board of Directors and City Council approving the final terms of the proposed transaction, and the Company and the City entering into several definitive agreements that detail the subject matter of the letter of intent. On February 27, 2014, the Company's Board of Directors authorized management to enter into agreements with the City on terms and conditions that are consistent with the July 2, 2013 letter of intent, for among other items, the sale of the Company's Northern Assets and Southern Assets to the City. Further, the completion of the transaction is subject to regulatory requirements and approval. If this transaction is consummated, the Company will expand its sewer customer base in the City. The completion of the transaction is not expected to close until the third quarter of 2014. The Company continues to evaluate its legal and operational options on an ongoing basis.

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**Note 4 – Property, Plant and Equipment**

	December 31,		Approximate Range of Useful Lives	Weighted Average Useful Life
	2013	2012		
<b>Utility plant and equipment:</b>				
Mains and accessories	\$2,353,812	\$2,190,078	26 to 92 years	76 years
Services, hydrants, treatment plants and reservoirs	1,361,534	1,275,221	5 to 85 years	48 years
Operations structures and water tanks	240,083	233,743	14 to 70 years	47 years
Miscellaneous pumping and purification equipment	639,314	594,687	5 to 90 years	37 years
Meters, data processing, transportation and operating equipment	610,257	573,899	4 to 78 years	26 years
Land and other non-depreciable assets	85,272	95,436	—	—
Utility plant and equipment	5,290,272	4,963,064		
Utility construction work in progress	116,259	107,944	—	—
Net utility plant acquisition adjustment	(27,466)	(31,347)	2 to 53 years (1)	19 years
Non-utility plant and equipment	8,787	10,739	4 to 25 years	6 years
<b>Total property, plant and equipment</b>	<b><u>\$5,387,852</u></b>	<b><u>\$5,050,400</u></b>		

(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,	
	2013	2012
Billed utility revenue	\$56,569	\$53,173
Unbilled utility revenue	33,624	33,590
Other	9,593	10,479
	99,786	97,242
Less allowance for doubtful accounts	4,430	4,321
<b>Net accounts receivable</b>	<b><u>\$95,356</u></b>	<b><u>\$92,921</u></b>

AQUA AMERICA, INC. AND SUBSIDIARIES  
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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, 2013, 2012, and 2011. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2013	2012	2011
Balance at January 1,	\$ 4,321	\$ 4,485	\$ 4,367
Amounts charged to expense	4,712	4,805	4,854
Accounts written off	(5,897)	(5,939)	(5,780)
Recoveries of accounts written off	1,294	970	1,044
Balance at December 31,	<u>\$ 4,430</u>	<u>\$ 4,321</u>	<u>\$ 4,485</u>

**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, 2013		December 31, 2012	
	Regulatory Assets	Regulatory Liabilities	Regulatory Assets	Regulatory Liabilities
Income taxes	\$494,308	\$223,592	\$348,359	\$192,551
Utility plant retirement costs	12,083	22,365	16,976	19,936
Post-retirement benefits	66,535	34,983	139,139	28,795
Water tank painting	1,715	—	2,836	—
Fair value adjustment of long-term debt assumed in acquisition	4,371	—	4,739	—
Rate case filing expenses & other	6,588	74	9,215	81
	<u>\$585,600</u>	<u>\$281,014</u>	<u>\$521,264</u>	<u>\$241,363</u>

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 or flow-through basis and will be recovered as they reverse. Amounts include differences that arise between specific utility asset improvement costs capitalized for book and deducted as a repair expense for tax purposes.

The regulatory liability related to the catch up component of the Aqua Pennsylvania repair tax accounting change represents the tax benefits realized on the Company's 2012 tax return, which have not yet flowed-through as a reduction to 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. During 2013, the Company amortized \$15,766 of its deferred income tax benefits, which reduced 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.

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Post-retirement benefits include pension and other post-retirement benefits. A regulatory asset has been recorded at December 31, 2013 and 2012 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 regulatory asset related to post-retirement benefits costs includes deferred expense in excess of amounts funded, which the Company believes will be recoverable in future years as funding of post-retirement benefits is required. 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 8 to 17 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.

The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to five years. Other represents 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,		
	2013	2012	2011
<b>Current:</b>			
Federal	\$ (9,891)	\$(13,854)	\$ (936)
State	5,839	3,172	(2,063)
	<u>(4,052)</u>	<u>(10,682)</u>	<u>(2,999)</u>
<b>Deferred:</b>			
Federal	30,218	67,743	76,479
State	(3,476)	9,820	(4,369)
	<u>26,742</u>	<u>77,563</u>	<u>72,110</u>
<b>Total tax expense</b>	<u>\$22,690</u>	<u>\$ 66,881</u>	<u>\$69,111</u>

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,		
	2013	2012	2011
Computed Federal tax expense at statutory rate	\$ 79,689	\$ 87,839	\$73,778
Decrease in Federal tax expense related to repair tax accounting change	(57,467)	(28,948)	—
State income taxes, net of federal tax benefit	1,536	8,445	(4,180)
Increase in tax expense for depreciation expense to be recovered in future rates	295	361	551
Stock-based compensation	(421)	(386)	(355)
Deduction for Aqua America common dividends paid under employee benefit plan	(414)	(387)	(345)
Amortization of deferred investment tax credits	(420)	(420)	(340)
Other, net	(108)	377	2
Actual income tax expense	<u>\$ 22,690</u>	<u>\$ 66,881</u>	<u>\$69,111</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 (the "Repair Change"). The Repair Change was implemented in response to a June 2012 rate order issued by the Pennsylvania Public Utility Commission to Aqua Pennsylvania ("settlement agreement") which provides for flow-through accounting treatment of some income tax benefits resulting from the Repair Change. As a result of this settlement agreement, the net 2012 income tax benefits of \$33,565 reduced the Company's Federal and state income tax expense and flowed-through to net income in the fourth quarter of 2012. In 2013, the Company recorded additional income tax benefits of \$14,908, as adjusted for the 2012 tax return. Similar to 2012, the Company recorded \$45,647 of income tax benefits in 2013. The Company recognized a tax deduction on its 2012 Federal tax return of \$380,000 for qualifying capital expenditures made prior to 2012 ("catch-up adjustment"), and based on the settlement agreement, in 2013, the Company began to amortize 1/10<sup>th</sup> of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized \$15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company's net income. The Company's effective income tax rate for 2013, 2012, and 2011, for its continuing operations, was 10.0%, 26.6%, and 32.8%, respectively.

During 2013, additional income tax benefits were recognized of \$17,736, related to a change in the Company's tax method of accounting for qualifying utility system repairs in some non-Pennsylvania operating divisions. These divisions currently do not employ a flow-through method of accounting 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 will be effective for the Company's 2014 fiscal year and early adoption is available. The Company has reviewed the regulations and concluded that the regulations will not have a material impact on the Company's consolidated results of operations or consolidated financial position when they are fully adopted.

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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 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:

Balance at January 1, 2013	\$ —
Additions based on tax position related to the current year	<u>28,690</u>
Balance at December 31, 2013	<u>\$28,690</u>

The unrecognized tax benefits relate to the Repair Change, and the tax position is attributable to a temporary difference. As a result of the regulatory treatment afforded by the Repair Change in Pennsylvania and despite this position being a temporary difference, as of December 31, 2013, \$9,795 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 Company does not anticipate material changes to its unrecognized tax benefits within the next year.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was enacted on December 17, 2010 and provided for a 100 percent expensing allowance for qualifying capital additions placed in service after September 8, 2010 through tax year 2011, and extended 50 percent bonus depreciation for qualifying capital additions for tax year 2012. In February 2011, one of the Company's state tax jurisdictions issued guidance that it would recognize the 100% expensing allowance in the 2011 tax year. As a result of this guidance and the flow-through treatment afforded by that state's regulatory commission, the net state income tax benefit reduced the Company's 2011 state income tax expense by \$14,800 and reduced the Company's effective state income tax rate. The American Tax Relief Act of 2012 was enacted on January 1, 2013 and provided for an extension of the 50% bonus depreciation for qualifying capital additions for tax year 2013.

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The following table provides the components of the net deferred tax liability from continuing operations:

	December 31,	
	2013	2012
<b>Deferred tax assets:</b>		
Customers' advances for construction	\$ 26,732	\$ 26,820
Costs expensed for book not deducted for tax, principally accrued expenses	11,085	13,124
Utility plant acquisition adjustment basis differences	9,922	12,496
Post-retirement benefits	19,311	45,015
Tax loss carryforward	128,688	111,452
Other	3,133	2,360
	<u>198,871</u>	<u>211,267</u>
Less valuation allowance	6,431	7,506
	<u>192,440</u>	<u>203,761</u>
<b>Deferred tax liabilities:</b>		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	881,007	772,006
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	112,307	66,361
Tax effect of regulatory asset for post-retirement benefits	19,311	45,015
Deferred investment tax credit	7,657	5,928
	<u>1,020,282</u>	<u>889,310</u>
<b>Net deferred tax liability</b>	<u><b>\$ 827,842</b></u>	<u><b>\$685,549</b></u>

At December 31, 2013, the Company has a cumulative Federal net operating loss ("NOL") of \$258,094. 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, 2013 the Company has a cumulative state NOL of \$531,160, 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 \$62,219 and \$86,016, 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 \$320,313 and \$617,176, 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, 2013, the Company's Federal income tax returns for all years through 2011 have been closed. Tax years 2012 through 2013 remain open to Federal examination. The statute remains open for the Company's state income tax returns for tax years 2010 through 2013 in the various states the Company's conducts business in. In 2013, the Company's Illinois subsidiary's state income tax audit for tax years 2008 and 2009 was completed, which resulted in no significant audit adjustments.

**Note 8 – Taxes Other than Income Taxes**

The following table provides the components of taxes other than income taxes:

	Years Ended December 31,		
	2013	2012	2011
Property	\$25,764	\$21,550	\$16,618
Capital Stock	2,127	3,196	3,559
Gross receipts, excise and franchise	11,857	10,060	9,408
Payroll	7,452	6,967	6,441
Other	6,068	5,631	5,423
Total taxes other than income	<u>\$53,268</u>	<u>\$47,404</u>	<u>\$41,449</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:

	2014	2015	2016	2017	2018	Thereafter
Leases	\$2,072	\$1,443	\$862	\$481	\$202	\$ 361

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 2014 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 \$571 of annual lease payments for land is due, and the aggregate of the years remaining approximates \$13,531. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of:

	2014	2015	2016	2017	2018	Thereafter
Treatment plants	\$494	\$531	\$531	\$531	\$531	\$ 3,100

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 2018 are expected to average \$10,273 and the aggregate of the years remaining approximates \$28,548.

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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:

	2014	2015	2016	2017	2018	Thereafter
Wells	\$945	\$965	\$986	\$1,007	\$1,029	\$ 11,402

In addition, as of December 31, 2013, the estimated capital expenditures required under legal and binding long-term contracts are approximately \$4,200 in 2017.

Rent expense under operating leases, purchased water expense, and water treatment expenses under these agreements were as follows:

	Years Ended December 31,		
	2013	2012	2011
Operating lease expense	\$ 3,413	\$ 3,850	\$ 3,553
Purchased water under long-term agreements	12,923	11,796	14,507
Water treatment expense under contractual agreement	926	897	865

**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, 2013, the aggregate amount of \$11,342 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, 2013, estimates that approximately \$1,184 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 Dispositions for a discussion 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.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
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- In 2006, a lawsuit was filed by two occupants of a house abutting a wastewater treatment plant facility owned by the Company's subsidiary in Florida. The lawsuit, as amended, alleged the plaintiffs sustained bodily injury and property damage due to the design, operation and maintenance of the plant. In January 2011, a trial was held which resulted in the judicial dismissal of the count for strict liability and jury verdicts in favor of the Company on the remaining counts. In June 2011, the plaintiffs agreed to dismiss their appeals and to release all claims against the Company's subsidiary and the Company, which resulted in the conclusion of the original plaintiffs' litigation against the Company's subsidiary. In the third quarter of 2008, approximately thirty-five additional plaintiffs, associated with approximately eight other nearby homes, and represented by the same counsel as the original plaintiffs, filed a separate lawsuit making similar allegations against our Florida subsidiary with respect to the operation of the facility. The court severed the litigation so that the plaintiffs are grouped by the houses in which they lived and a separate trial was to be held for each of the households. Some of these plaintiffs testified in the trial of the original lawsuit in which all allegations were resolved in the Company's favor. The claims from the first of these households were expected to go to trial in May 2013. However, all of the plaintiffs in the 2008 lawsuit have entered into a confidential comprehensive settlement agreement and in October 2013, the court dismissed all claims of all the plaintiffs in that matter with prejudice, which completely concludes the 2008 litigation matter. The settlement is covered by the Company's insurance coverage. Based on the settlement agreement, the Company believes that the amount of loss is not material to the Company's consolidated results of operations or consolidated financial condition.
- One of the Company's subsidiaries acquired in 2008 had entered into a Consent Decree with the United States Environmental Protection Agency ("EPA") and received from the United States Department of Justice a proposed civil penalty related to alleged violations, which was estimated to be approximately \$254. The Company's subsidiary had contested the appropriateness of earlier calculations of the proposed penalty based on sanitary sewer violations occurring prior to the acquisition of the subsidiary and the amount of the proposed penalty. A reserve has been accrued for this loss contingency as it is judged to be probable and the amount is estimable. On April 15, 2013, Company's subsidiary and the EPA and the Department of Justice submitted a proposed modification of the Consent Decree for approval by the Northern District of Indiana US District Court. The Court entered the modification on April 25, 2013. The modification includes the provision of operational compliance and implementation of a Capacity, Management, Operations, and Maintenance program for one year and a civil penalty of \$254. The Company had withheld payment of an amount of shares of the Company's common stock to the sellers as a contingent indemnification offset related to the proceedings. Pursuant to further agreement with the sellers, the Company has retained a portion of those shares in an amount anticipated to cover penalty amounts and attendant costs, and in January 2013, released a number of shares to the sellers. The Company intends to release a final designated amount of shares to the seller that were withheld, which are in excess of the amount needed, to cover contingent increases in the absence of such contingent increases.
- 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 plans to challenge these potential fines and is unable to estimate the amount of the final fines.

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.

In addition to the aforementioned loss contingencies, 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 \$1,965 at December 31, 2013 and represents a reserve for unpaid claim costs, including an estimate for the cost of incurred but not reported claims.

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**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, 2013 and 2012. 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 December 31, 2013, restrictions on the net assets of the Company were \$1,102,879 of the total \$1,535,043 in net assets. Included in this amount were restrictions on Aqua Pennsylvania’s net assets of \$818,514 of their total net assets of \$1,168,863. As of December 31, 2013, approximately \$864,000 of Aqua Pennsylvania’s retained earnings of approximately \$884,000 and approximately \$79,000 of the retained earnings of approximately \$127,000 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	2014	2015	2016	2017	2018	Thereafter
0.00% to 0.99%	\$ 194	\$ 437	\$ 437	\$ 437	\$ 437	\$ 3,093
1.00% to 1.99%	2,322	2,249	2,128	1,994	2,026	17,896
2.00% to 2.99%	1,030	1,056	1,083	1,112	1,143	9,479
3.00% to 3.99%	2,469	2,553	2,649	2,736	2,827	204,131
4.00% to 4.99%	27,260	272	11,087	11,096	11,111	557,871
5.00% to 5.99%	51,673	38,614	16,887	25,069	10,720	373,531
6.00% to 6.99%	—	12,000	—	8,923	13,000	31,000
7.00% to 7.99%	345	409	442	479	518	32,863
8.00% to 8.99%	295	405	437	473	512	17,161
9.00% to 9.99%	700	700	700	700	5,700	20,000
10.00% to 10.99%	—	—	—	—	6,000	—
Total	<u>\$86,288</u>	<u>\$58,695</u>	<u>\$35,850</u>	<u>\$53,019</u>	<u>\$53,994</u>	<u>\$1,267,025</u>

In October 2013, the Company’s operating subsidiary, Aqua Pennsylvania, Inc., 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, the Company’s operating subsidiary, Aqua Ohio, Inc., issued \$85,000 of first mortgage bonds, of which \$35,000 is due in 2033, \$30,000 is 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.

In November 2012, Aqua Pennsylvania issued \$80,000 of first mortgage bonds, secured by a supplement to its first mortgage indenture, of which \$40,000 is due in 2041, \$20,000 is due in 2042, and \$20,000 is due in 2047 with interest rates of 3.79%, 3.80%, and 3.85% respectively. The proceeds were used to refinance higher coupon first mortgage bonds and pay down our revolving credit facility.

In June 2012, the Company issued \$50,000 of senior unsecured notes due in 2027 with an interest rate of 3.57%. The proceeds were used to fund the Company’s capital expenditures.

As of December 31, 2013, 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, 2013 and 2012 was 5.00% and 4.81%, respectively. The weighted average cost of fixed rate long-term debt at December 31, 2013 and 2012 was 5.00% and 5.06%, respectively.

In March 2012, the Company entered into a five-year \$150,000 unsecured revolving credit facility with three banks that expires in March 2017. 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. The Company’s \$150,000 unsecured revolving credit facility replaced the Company’s prior \$95,000 unsecured revolving credit facility, which expired in May 2012. As of December 31, 2013, the Company has the following sublimits and available capacity under the credit facility: \$50,000 letter of credit sublimit, \$25,572 of letters of credit available capacity, \$0 borrowed under the swing-line commitment, and \$0 of funds borrowed under the agreement. Interest under this facility is based at the Company’s option, on 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 0.83% and 0.85%, and the average borrowing was \$26,954 and \$68,609, during 2013 and 2012, respectively.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
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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 2013, 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 2013, 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, 2013 and 2012, funds borrowed under the agreement were \$30,000 and \$70,902, 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 0.075% is charged on the total commitment amount of Aqua Pennsylvania's revolving credit agreement. The average cost of borrowing under the facility was 0.89% and 0.94%, and the average borrowing was \$75,621 and \$78,525, during 2013 and 2012, respectively. The maximum amount outstanding at the end of any one month was \$96,103 and \$89,973 in 2013 and 2012, respectively.

At December 31, 2013 and 2012, 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, 2013 and 2012, funds borrowed under the short-term lines of credit were \$6,740 and \$9,481, respectively. The average borrowing under the lines was \$11,531 and \$15,583 during 2013 and 2012, respectively. The maximum amount outstanding at the end of any one month was \$17,081 and \$22,941 in 2013 and 2012, 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 2013 and 2012 was 1.67% and 1.83%, respectively.

**Interest Income** – Interest income of \$438, \$372, and \$757 was netted against interest expense on the consolidated statement of net income for the years ended December 31, 2013, 2012, and 2011, respectively. The total interest cost was \$77,754, \$78,129, and \$78,561 in 2013, 2012, and 2011, including amounts capitalized of \$2,274, \$4,142, and \$7,150, respectively.

#### **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, 2013 and 2012, the carrying amount of the Company's funds restricted for construction activity was \$47 and \$23,572, respectively, which equates to their estimated fair value. As of December 31, 2013 and 2012, the carrying amount of the Company's loans payable was \$36,740 and \$80,383, 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, 2013 and 2012, the carrying amounts of the Company's cash and cash equivalents were \$5,058 and \$5,521, which equates to their fair value.

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The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2013	2012
Carrying amount	\$1,554,871	\$1,588,992
Estimated fair value	1,540,296	1,702,997

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 \$74,257 and \$71,595 at December 31, 2013 and 2012, 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 2028 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, 2013, 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,		
	2013	2012	2011
Shares outstanding	176,750,599	175,209,082	173,518,872
Treasury shares	1,178,323	776,355	710,482

At December 31, 2013, the Company had 1,738,619 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

In May 2013, the Board of Directors of the Company approved a five-for-four stock split to be effected in the form of a 25% stock distribution to shareholders of record on August 16, 2013. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on September 1, 2013. Aqua America's par value of \$0.50 per share did not change as a result of the common stock distribution, and \$17,655 was transferred from capital in excess of par value to common stock to record the stock split. All common share, per common share, stock unit, and per stock unit data, for all periods presented, has been adjusted to give effect to the stock split.

In February 2012, the Company renewed its universal shelf registration, which 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, 2013 is 1,904,487 shares. The form and terms of any securities issued under these shelf registrations will be determined at the time of issuance.

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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. Under the direct stock purchase program, shares are purchased by investors at market price. 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 2013, 2012, and 2011, under the dividend reinvestment portion of the Plan, 432,894, 711,740, and 735,931 original issue shares of common stock were sold providing the Company with proceeds of \$10,107, \$12,921, and \$12,304, respectively. In 2013, 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 \$3,693.

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. As of December 31, 2013, 685,348 shares remain available for repurchase.

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 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,		
	2013	2012	2011
Average common shares outstanding during the period for basic computation	176,140	174,201	172,727
Effect of dilutive securities:			
Employee stock-based compensation	674	717	634
Average common shares outstanding during the period for diluted computation	176,814	174,918	173,361

For the year ended December 31, 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 years ended December 31, 2012, and 2011, employee stock options to purchase 534,315 and 1,157,875 shares of common stock, respectively, 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 \$8.68 and \$7.91 at December 31, 2013 and 2012, 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 (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 50% of the shares available for issuance under the 2009 Plan may be issued as stock awards or share units and the maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 250,000. Shares issued under the 2009 Plan may be original issue shares, the issuance of treasury shares, or shares purchased by the Company in the open-market. Awards under the 2009 Plan are made by a committee of the Board of Directors. At December 31, 2013, 4,680,779 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.

**Performance Share Units** – During 2013, 2012, and 2011, 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 and 2011 grants: 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 2013 grant: 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 PSUs:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$3,451	\$2,552	\$943
Income tax benefit	1,406	1,040	384

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The following table summarizes nonvested PSU transactions for the year ended December 31, 2013:

	Number of Share Units	Weighted Average Fair Value
Nonvested share units at beginning of period	414,168	\$ 18.82
Granted	166,641	26.88
Performance criteria adjustment	(15,165)	18.21
Forfeited	(19,552)	21.74
Vested	(18,000)	19.51
Share unit awards issued	—	—
Nonvested share units at end of period	<u>528,092</u>	<u>\$ 21.25</u>

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. 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 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,		
	2013	2012	2011
Expected term (years)	3.0	3.0	3.0
Risk-free interest rate	0.36%	0.43%	1.22%
Expected volatility	20.0%	22.1%	29.7%
Weighted average fair value of PSUs granted	\$ 26.88	\$ 19.11	\$ 19.50

As of December 31, 2013, \$4,486 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 year ended December 31, 2013 was \$415. The aggregate intrinsic value of PSUs as of December 31, 2013 was \$12,458. 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. The following table provides compensation costs for RSUs:

	Years ended December 31,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 813	\$ 634	\$ 342
Income tax benefit	336	262	142

The following table summarizes nonvested RSU transactions for the year ended December 31, 2013:

	Number of Stock Units	Weighted Average Fair Value
Nonvested stock units at beginning of period	85,597	\$ 17.89
Granted	48,133	23.28
Vested	(19,500)	17.83
Forfeited	(1,564)	20.78
Nonvested stock units at end of period	<u>112,666</u>	<u>\$ 20.16</u>

The following table summarizes the value of RSUs:

	Years ended December 31,		
	2013	2012	2011
Weighted average fair value of RSUs granted	\$23.28	\$17.99	\$17.77

As of December 31, 2013, \$1,070 of unrecognized compensation costs related to RSUs is expected to be recognized over a weighted average period of approximately 1.6 years. The intrinsic value of vested RSUs for the years ended December 31, 2013 and 2012 was \$449 and \$247. The fair value of vested RSUs for the years ended December 31, 2013 and 2012 was \$348 and \$195. The aggregate intrinsic value of RSUs as of December 31, 2013 was \$2,658. 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,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 30	\$ 612	\$ 1,361
Income tax benefit	461	580	673

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There were no stock options granted during the years ended December 31, 2013, 2012, and 2011. During the second quarter of 2011, the Company changed its estimation assumptions related to its historical stock option forfeitures which resulted in a favorable adjustment to compensation expense of \$644 and additional income tax expense of \$52.

The Company estimates forfeitures in calculating compensation expense instead of recognizing these forfeitures and the resulting reduction in compensation expense as they occur. The estimate of forfeitures will be adjusted over the vesting period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. 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.

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 each option was amortized into compensation expense on a straight-line basis over their respective 36 month vesting period, net of estimated forfeitures. 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, 2013:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value
<b>Options:</b>				
Outstanding, beginning of year	3,121,388	\$ 16.65		
Granted	—	—		
Forfeited	—	—		
Expired	(17,189)	22.84		
Exercised	(1,566,089)	16.41		
Outstanding and exercisable at end of year	<u>1,538,110</u>	<u>\$ 16.82</u>	<u>3.7</u>	<u>\$ 10,410</u>

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,		
	2013	2012	2011
Intrinsic value of options exercised	\$10,410	\$5,547	\$3,071
Fair value of options vested	500	1,318	2,077

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The following table summarizes information about the options outstanding and options exercisable as of December 31, 2013:

	Options Outstanding and Exercisable		
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
Range of prices:			
\$12.00 - 12.99	78,471	0.2	\$ 12.92
\$13.00 - 14.99	451,318	3.7	14.04
\$15.00 - 16.99	518,231	4.5	15.71
\$17.00 - 19.99	236,157	3.2	18.61
\$20.00 - 23.99	253,933	2.2	23.57
	<u>1,538,110</u>	<u>3.7</u>	<u>\$ 16.82</u>

As of December 31, 2013, 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,		
	2013	2012	2011
Stock-based compensation within operations and maintenance expense	\$ 770	\$ 1,739	\$ 1,800
Income tax benefit	320	721	740

The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2013:

	Number of Shares	Weighted Average Fair Value
Nonvested shares at beginning of period	147,160	\$ 15.38
Granted	16,000	25.09
Vested	(100,660)	15.49
Forfeited	—	—
Nonvested shares at end of period	<u>62,500</u>	<u>\$ 17.70</u>

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The following table summarizes the value of restricted stock awards:

	Years ended December 31,		
	2013	2012	2011
Intrinsic value of restricted stock awards vested	\$2,236	\$2,384	\$2,020
Fair value of restricted stock awards vested	1,560	1,971	1,650
Weighted average fair value of restricted stock awards granted	25.09	18.47	17.77

As of December 31, 2013, \$338 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of approximately 6 months. The aggregate intrinsic value of restricted stock as of December 31, 2013 was \$1,474. 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 qualified, defined benefit pension plans that cover its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans 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 plans 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. 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 addition to providing pension benefits, the Company offers Post-retirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs 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 its gross PBOP cost 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.

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
2014	\$ 11,601	\$ 1,680
2015	12,400	1,897
2016	13,212	2,177
2017	14,048	2,464
2018	14,948	2,760
2019-2023	87,278	17,027

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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	
	2013	2012	2013	2012
<b>Change in benefit obligation:</b>				
Benefit obligation at January 1,	\$303,077	\$237,087	\$ 63,033	\$ 50,189
Service cost	5,313	4,920	1,525	1,309
Interest cost	12,660	12,728	2,579	2,482
Actuarial (gain) loss	(30,223)	34,750	(9,024)	5,218
Plan participants' contributions	—	—	190	199
Benefits paid	(10,332)	(9,329)	(1,129)	(1,160)
Plan amendments	666	—	—	(392)
Acquisition	—	23,652	—	5,188
Settlements	—	(731)	—	—
<b>Benefit obligation at December 31,</b>	<b><u>281,161</u></b>	<b><u>303,077</u></b>	<b><u>57,174</u></b>	<b><u>63,033</u></b>
<b>Change in plan assets:</b>				
Fair value of plan assets at January 1,	190,084	148,912	34,054	28,131
Actual return on plan assets	36,517	17,153	5,800	2,019
Employer contributions	16,078	15,256	1,913	1,905
Benefits paid	(10,332)	(9,329)	(927)	(941)
Acquisition	—	18,823	—	2,940
Settlements	—	(731)	—	—
<b>Fair value of plan assets at December 31,</b>	<b><u>232,347</u></b>	<b><u>190,084</u></b>	<b><u>40,840</u></b>	<b><u>34,054</u></b>
<b>Funded status of plan:</b>				
<b>Net amount recognized at December 31,</b>	<b><u>\$ 48,814</u></b>	<b><u>\$112,993</u></b>	<b><u>\$ 16,334</u></b>	<b><u>\$ 28,979</u></b>

The Company's pension plans had an accumulated benefit obligation of \$246,843 and \$267,400 at December 31, 2013 and 2012, respectively. The following table provides the net liability recognized on the consolidated balance sheets at December 31,:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
Current liability	\$ 366	\$ 222	\$ —	\$ —
Noncurrent liability	48,448	112,771	16,334	28,979
<b>Net liability recognized</b>	<b><u>\$48,814</u></b>	<b><u>\$112,993</u></b>	<b><u>\$16,334</u></b>	<b><u>\$28,979</u></b>

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At December 31, 2013 and 2012, 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,:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2013	2012
Projected benefit obligation	\$ 281,161	\$ 303,077
Fair value of plan assets	232,347	190,084

  

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2013	2012
Accumulated benefit obligation	\$ 246,843	\$ 267,400
Fair value of plan assets	232,347	190,084

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The following table provides the components of net periodic benefit costs for the years ended December 31,:

	Pension Benefits			Other Post-retirement Benefits		
	2013	2012	2011	2013	2012	2011
Service cost	\$ 5,313	\$ 4,920	\$ 4,127	\$ 1,525	\$ 1,309	\$ 1,092
Interest cost	12,660	12,728	12,052	2,579	2,482	2,414
Expected return on plan assets	(14,770)	(13,588)	(11,731)	(2,268)	(1,950)	(1,689)
Amortization of transition obligation	—	—	—	—	—	104
Amortization of prior service cost	228	277	253	(295)	(299)	(268)
Amortization of actuarial loss	8,169	6,568	3,578	1,479	1,024	783
Amortization of regulatory asset	—	—	—	—	69	137
Settlement loss	—	304	—	—	90	—
Capitalized costs	(4,231)	(3,696)	(3,499)	(745)	(671)	(668)
Net periodic benefit cost	<u>\$ 7,369</u>	<u>\$ 7,513</u>	<u>\$ 4,780</u>	<u>\$ 2,275</u>	<u>\$ 2,054</u>	<u>\$ 1,905</u>

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, 2013 and 2012. 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	
	2013	2012	2013	2012
Net actuarial loss	\$46,843	\$106,980	\$ 7,280	\$ 21,315
Prior service cost (credit)	1,734	1,297	(682)	(977)
Total recognized in regulatory assets	<u>\$48,577</u>	<u>\$108,277</u>	<u>\$ 6,598</u>	<u>\$ 20,338</u>

The estimated net actuarial loss, prior service cost, and transition asset for the Company's pension plans that will be amortized in 2014 from the regulatory assets into net periodic benefit cost are \$2,001, \$277, 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 2014 from regulatory assets into net periodic benefit cost are \$329, \$295, 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.

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The significant assumptions related to the Company's benefit obligations are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2013	2012	2013	2012
<b>Weighted Average Assumptions Used to Determine Benefit Obligations as of December 31,</b>				
Discount rate	5.12%	4.17%	5.12%	4.17%
Rate of compensation increase	4.0-4.5%	4.0-4.5%	4.0%	4.0%
<b>Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,</b>				
Health care cost trend rate	n/a	n/a	7.5%	8.0%
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		
	2013	2012	2011	2013	2012	2011
<b>Weighted Average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,</b>						
Discount rate	4.17%	5.00%	5.75%	4.17%	5.00%	5.75%
Expected return on plan assets	7.50%	7.75%	7.8%	5.00-7.50%	5.17-7.75%	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%
<b>Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,</b>						
Health care cost trend rate	n/a	n/a	n/a	8.0%	8.5%	9.0%
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.*

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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	\$ 3,690	\$ (3,490)
Effect on aggregate service and interest cost components of net periodic post-retirement health-care benefit cost	\$ 308	\$ (285)

The Company's discount rate assumption was determined by selecting a hypothetical portfolio of high quality corporate bonds appropriate to provide for the projected benefit payments of the plan. 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 single 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. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by \$898 and the pension liabilities by \$10,270.

The Company's expected return on 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 assets as of the last day of its fiscal year, and is a determinant for the expected return on assets which is a component of net pension expense. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2013 pension expense by \$492. For 2013, the Company used a 7.50% expected return on assets assumption which will remain unchanged for 2014. 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:

Asset Class:	Target Allocation	Percentage of Plan Assets at December 31,	
		2013	2012
Domestic equities	25 to 75%	65%	55%
International equities	0 to 10%	7%	8%
Fixed income	25 to 50%	24%	22%
Alternative investments	0 to 5%	1%	2%
Cash and cash equivalents	0 to 20%	3%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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The fair value of the Company's pension plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
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	—
<b>Total pension assets</b>	<b><u>\$232,347</u></b>	<b><u>\$195,808</u></b>	<b><u>\$36,539</u></b>	<b><u>\$ —</u></b>

The fair value of the Company's pension plans' assets at December 31, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	\$105,381	\$105,381	\$ —	\$ —
International equities (2)	14,531	14,531	—	—
Fixed income (3)				
U.S. Treasury and government agency bonds	12,156	—	12,156	—
Corporate and foreign bonds	5,975	—	5,975	—
Mutual funds	23,226	23,226	—	—
Alternative investments (4)				
Real estate	2,890	2,890	—	—
Commodity funds	1,700	1,700	—	—
Cash and cash equivalents (5)	24,225	—	24,225	—
<b>Total pension assets</b>	<b><u>\$190,084</u></b>	<b><u>\$147,728</u></b>	<b><u>\$42,356</u></b>	<b><u>\$ —</u></b>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (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 mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
- (4) Investments in real estate are comprised of investments in real estate funds and real estate investment trusts and are valued using unadjusted quoted prices obtained from active markets. Investments in commodity funds are valued using unadjusted quoted prices obtained from active markets.
- (5) Cash 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 \$14,983 or 6.5% and \$12,596 or 6.6% of total pension plans' assets as of December 31, 2013 and 2012, respectively.

The asset allocation for the Company's other post-retirement benefit plans and the target allocation by asset class are as follows:

Asset Class:	Target Allocation	Percentage of Plan Assets at December 31,	
		2013	2012
Domestic equities	25 to 75%	58%	40%
International equities	0 to 10%	5%	6%
Fixed income	25 to 50%	24%	26%
Alternative investments	0 to 5%	1%	1%
Cash and cash equivalents	0 to 20%	12%	27%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The fair value of the Company's other post-retirement benefit plans' assets at December 31, 2013 by asset class are as follows:

Asset Class:	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	—
<b>Total other post-retirement assets</b>	<b>\$40,840</b>	<b>\$27,404</b>	<b>\$13,436</b>	<b>\$ —</b>

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, 2012 by asset class are as follows:

Asset Class:	Total	Level 1	Level 2	Level 3
Domestic equities (1)				
Common stocks	\$ 8,219	\$ 8,219	\$ —	\$ —
Mutual funds	5,378	5,378	—	—
International equities (2)	1,895	1,895	—	—
Fixed income (3)				
U.S. Treasury and government agency bonds	4,751	—	4,751	—
Corporate and foreign bonds	2,735	—	2,735	—
Mutual funds	1,398	1,398	—	—
Alternative investments (4)	143	143	—	—
Cash and cash equivalents (5)	9,535	—	9,535	—
Total other post-retirement assets	<u>\$34,054</u>	<u>\$17,033</u>	<u>\$17,021</u>	<u>\$ —</u>

- (1) Investments in common stocks are valued using unadjusted quoted prices obtained from active markets. Investments in mutual funds, which invest in common stocks, are valued using the net asset value per unit as obtained from quoted market prices for the mutual funds.
- (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 mutual funds, which invest in bonds, are valued using the net asset value per unit as obtained from quoted market prices in active markets for the mutual fund.
- (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 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 2014 our pension contribution is expected to be approximately \$17,875. The Company's funding of its PBOP cost during 2014 is expected to approximate \$2,763.

The Company has 401(k) savings plans that cover 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 plans. The Company's matching contribution and annual profit-sharing contribution, recorded as compensation expense, was \$2,790, \$2,741, and \$2,496, for the years ended December 31, 2013, 2012, and 2011, respectively.

**Note 16 – Water and Wastewater Rates**

In August 2013, the Company's operating subsidiary in North Carolina filed an application with the North Carolina Utilities Commission designed to increase water and wastewater rates by \$8,611, or 19.2%, on an annual basis. The amount of the final rate aware that might be granted by the North Carolina Utilities Commission can vary significantly from the amount requested. The Company anticipates a final order to be issued by May 2014.

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AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

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 Distribution System Improvement Charges (“DSIC”) or 7.5% above prior base rates. Consequently, the total base rates increased by \$44,149 since the last base rate increase and the DSIC was reset to zero. In addition, the rate case settlement provides for flow-through accounting treatment 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 the Repair Change which resulted in the net recognition of 2012 income tax benefits of \$33,565 which reduced the Company’s Federal and state income tax expense as it was flowed-through to 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 settlement agreement, in 2013, the Company began to amortize 1/10<sup>th</sup> of the catch-up adjustment. In accordance with the settlement agreement, the amortization is expected to reduce income tax expense during periods when qualifying parameters are met. During 2013, the Company amortized its catch-up adjustment and recognized \$15,766 of deferred income tax benefits, which reduced income tax expense and increased the Company’s net income. As a result of the Repair Change, the fourth quarter 2012 DSIC 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 a DSIC in 2013.

In February 2012, two of the Company’s operating subsidiaries in Texas began to bill interim rates in accordance with authorization from the Texas Commission on Environmental Quality (“TCEQ”). The additional revenue billed and collected prior to the TCEQ’s final ruling was subject to refund based on the outcome of the rate case. The rate case concluded with the issuance of an order on June 3, 2013, and no refunds of revenue previously billed and collected were required.

The Company’s operating subsidiaries, excluding the 2012 Pennsylvania water award discussed above, were allowed annual rate increases of \$9,431 in 2013, \$17,923 in 2012, and \$6,311 in 2011, represented by six, nine, and twelve rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$8,169, \$13,754, and \$3,312 in 2013, 2012, and 2011, respectively.

Five states in which the Company operates permit water utilities, and in three 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, New Jersey, and Indiana allow for the use of infrastructure rehabilitation surcharges, and in 2013, North Carolina legislators passed a law allowing for an infrastructure rehabilitation surcharge for regulated water and wastewater utilities; as a result, the Company’s operating subsidiary in North Carolina has filed a request to implement an infrastructure rehabilitation surcharge for 2014, which is subject to approval by the North Carolina Utilities Commission. These surcharge mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation 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. In 2013, the infrastructure rehabilitation surcharge was suspended for Aqua Pennsylvania’s water customers as a result of the implementation of the repair tax accounting change. Infrastructure rehabilitation surcharges provided revenues in 2013, 2012, and 2011 of \$3,205, \$15,911, and \$15,937, respectively.

AQUA AMERICA, INC. AND SUBSIDIARIES  
Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

**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 the Company's businesses that provide water and wastewater services through operating and maintenance contracts with municipal authorities and other parties in close proximity to our utility companies' service territories as well as offers, through a third party, water and sewer line repair service and protection solutions to households, liquid waste hauling and disposal, backflow prevention, construction, and other non-regulated water and wastewater services, and non-utility raw water supply services for firms, with which we enter into a water supply contract, in the natural gas drilling industry. 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.

The following table presents information about the Company's reportable segment:

	2013			2012		
	Regulated	Other and Eliminations	Consolidated	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 751,277	\$ 17,366	\$ 768,643	\$ 740,030	\$ 17,730	\$ 757,760
Operations and maintenance expense	272,758	12,582	285,340	259,847	11,996	271,843
Depreciation	119,436	(178)	119,258	113,139	(1,372)	111,767
Operating income	302,961	2,281	305,242	316,602	4,915	321,517
Interest expense, net of AFUDC	69,103	5,939	75,042	67,433	6,182	73,615
Income tax (benefit)	25,578	(2,888)	22,690	66,821	60	66,881
Income (loss) from continuing operations	208,481	(3,488)	204,993	182,769	1,318	184,087
Capital expenditures	307,295	876	308,171	346,676	1,309	347,985
Total assets	4,897,752	154,065	5,051,817	4,566,327	292,190	4,858,517
Goodwill	24,102	4,121	28,223	24,031	4,121	28,152

	2011		
	Regulated	Other and Eliminations	Consolidated
Operating revenues	\$ 674,927	\$ 12,364	\$ 687,291
Operations and maintenance expense	243,137	13,606	256,743
Depreciation	104,681	(1,269)	103,412
Operating income (loss)	282,587	(1,788)	280,799
Interest expense, net of AFUDC	64,990	5,664	70,654
Income tax (benefit)	72,336	(3,225)	69,111
Income (loss) from continuing operations	145,493	(3,810)	141,683
Capital expenditures	324,433	1,375	325,808
Total assets	4,183,758	164,662	4,348,420
Goodwill	22,823	4,121	26,944

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
<b>2013</b>					
Operating revenues	\$180,035	\$195,655	\$204,345	\$188,608	\$768,643
Operations and maintenance expense	68,311	70,858	72,065	74,106	285,340
Operating income	67,561	80,665	87,380	69,636	305,242
Income from continuing operations	41,231	53,548	63,484	46,730	204,993
Income from discontinued operations	5,334	38	133	10,802	16,307
Net income attributable to common shareholders	46,565	53,586	63,617	57,532	221,300
Basic income from continuing operations per common share	0.24	0.30	0.36	0.26	1.16
Diluted income from continuing operations per common share	0.23	0.30	0.36	0.26	1.16
Basic income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
Diluted income from discontinued operations per common share	0.03	0.00	0.00	0.06	0.09
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
<b>2012</b>					
Operating revenues	\$164,024	\$191,690	\$214,565	\$187,481	\$757,760
Operations and maintenance expense	64,825	63,571	71,268	72,179	271,843
Operating income	61,839	87,032	100,535	72,111	321,517
Income from continuing operations	26,889	41,780	50,284	65,134	184,087
Income/(loss) from discontinued operations	11,015	(335)	375	1,421	12,476
Net income attributable to common shareholders	37,904	41,445	50,659	66,555	196,563
Basic income from continuing operations per common share	0.16	0.24	0.29	0.37	1.06
Diluted income from continuing operations per common share	0.15	0.24	0.29	0.37	1.05
Basic income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Diluted income from discontinued operations per common share	0.06	0.00	0.00	0.01	0.07
Basic net income per common share	0.22	0.24	0.29	0.38	1.13
Diluted net income per common share	0.22	0.24	0.29	0.38	1.12
Dividend paid per common share	0.132	0.132	0.132	0.140	0.536
Dividend declared per common share	0.132	0.132	0.272	—	0.536
Price range of common stock					
- high	18.20	20.14	21.54	20.75	21.54
- low	16.85	17.22	19.25	19.32	16.85

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividend paid in September 2013 of \$0.152 was declared in May 2013, and the cash dividend paid in December 2012 of \$0.140 was declared in August 2012.

**Summary of Selected Financial Data (Unaudited)**  
Aqua America, Inc. and Subsidiaries  
(In thousands of dollars, except per share amounts)

Years ended December 31,	2013	2012	2011	2010	2009
<b>PER COMMON SHARE:</b>					
Income from continuing operations					
Basic	\$ 1.16	\$ 1.06	\$ 0.82	\$ 0.68	\$ 0.58
Diluted	1.16	1.05	0.82	0.68	0.58
Income from discontinued operations					
Basic	0.09	0.07	0.01	0.04	0.03
Diluted	0.09	0.07	0.01	0.04	0.03
Net income					
Basic	1.26	1.13	0.83	0.72	0.61
Diluted	1.25	1.12	0.83	0.72	0.61
Cash dividends declared and paid	0.58	0.54	0.50	0.47	0.44
Return on Aqua America stockholders' equity	14.4%	14.2%	11.4%	10.6%	9.4%
Book value at year end	\$ 8.68	\$ 7.91	\$ 7.21	\$ 6.82	\$ 6.50
Market value at year end	23.59	20.34	17.64	17.98	14.01
<b>INCOME STATEMENT HIGHLIGHTS:</b>					
Operating revenues	\$ 768,643	\$ 757,760	\$ 687,291	\$ 660,186	\$ 609,897
Depreciation and amortization	124,793	116,996	108,300	111,716	107,118
Interest expense, net (1)	77,316	77,757	77,804	73,393	66,345
Income from continuing operations before income taxes	227,683	250,968	210,794	191,319	162,066
Provision for income taxes	22,690	66,881	69,111	74,940	63,626
Income from continuing operations	204,993	184,087	141,683	116,379	98,440
Income from discontinued operations	16,307	12,476	1,386	7,596	5,913
Net income attributable to common shareholders	221,300	196,563	143,069	123,975	104,353
<b>BALANCE SHEET HIGHLIGHTS:</b>					
Total assets	\$5,051,817	\$4,858,517	\$4,348,420	\$4,072,466	\$3,749,862
Property, plant and equipment, net	4,167,293	3,936,163	3,530,942	3,276,517	3,032,916
Aqua America stockholders' equity	1,534,835	1,385,704	1,251,313	1,174,254	1,108,904
Long-term debt, including current portion	1,554,871	1,588,992	1,475,886	1,519,457	1,404,930
Total debt	1,591,611	1,669,375	1,583,657	1,609,125	1,432,361
<b>ADDITIONAL INFORMATION:</b>					
Operating cash flows from continuing operations	\$ 366,720	\$ 377,485	\$ 352,041	\$ 244,717	\$ 244,318
Capital additions	308,171	347,985	325,808	308,134	266,190
Net cash expended for acquisitions of utility systems and other	14,997	121,248	8,515	8,625	3,373
Dividends on common stock	102,889	93,423	87,133	80,907	74,729
Number of utility customers served (2)	941,008	968,357	966,136	962,970	953,437
Number of shareholders of common stock	25,833	26,216	26,744	27,274	27,984
Common shares outstanding (000)	176,751	175,209	173,519	172,219	170,607
Employees (full-time) (2)	1,553	1,619	1,615	1,632	1,632

All per share data presented above has been adjusted for the 2013 5-for-4 common stock split effected in the form of a 25% stock distribution.

- (1) Net of allowance for funds used during construction and interest income.
- (2) Includes continuing and discontinued operations.

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2013:

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)  
Aqua Utilities Florida, Inc. (Florida)  
Aqua Georgia, Inc. (Georgia)

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772, 333-42275, 333-122900, 333-152885, 333-176117, and 333-179743), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 033-52557, 033-53689, 333-70859, 333-81085, 333-61768, 333-107673, 333-116776, 333-126042, 333-148206, 333-156047, 333-159897, and 333-181389) of Aqua America, Inc. of our report dated March 3, 2014 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  
March 3, 2014

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

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Nicholas DeBenedictis  
Chairman, President and Chief Executive Officer  
March 3, 2014

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

March 3, 2014

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, 2013 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

March 3, 2014

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, 2013 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

March 3, 2014

