



Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010

LETTER TO SHAREHOLDERS
www.aquaamerica.com

March 2013

Dear Shareholder:

I am proud to report another excellent year for Aqua America: 10 percent revenue growth; a company record for infrastructure investment; and the completion of 18 acquisitions. **2012 marks Aqua's 13th straight year of net income growth.**

The Board of Directors declared a quarterly cash dividend of \$0.175 payable on March 1, 2013 to all shareholders of record on February 15, 2013, a 6.1 percent increase in the first quarter dividend over the 2012 payment. Aqua America has paid a consecutive quarterly dividend for more than 65 years and has **increased its dividend 22 times in the last 21 years.**

Aqua America's accelerated net income growth realized in 2012 was partially due to the implementation of the repair tax accounting change for its Pennsylvania subsidiary. We decided to make this cash positive tax accounting change because we believe we can use this tax policy to allow Aqua Pennsylvania to continue its infrastructure improvement program without increasing customer rates in 2013 and still provide the company with the opportunity to continue its strong financial performance.

The company completed 18 acquisitions in 2012, three of which were municipal systems. Aqua America profitably sold its regulated Maine operations in January 2012, and in May completed the purchase of all American Water Works Company, Inc.'s (NYSE: AWK) regulated operations in Ohio, simultaneously selling its regulated operations in New York to American Water. The new Ohio properties performed profitably in 2012 and were accretive to earnings. Overall acquisitions and organic growth in 2012 resulted in a 1.9 percent increase in customers, which is more than double 2011's result.

In 2012, the company invested \$348 million in regulated infrastructure improvements as part of its capital investment program, compared to \$331 million in 2011. The company is once again on track to invest more than \$300 million in 2013 on a number of projects, including pipe replacement projects to improve our distribution network and plant upgrades to enhance water quality and service reliability for our customers. In addition to our regulated capital program, we have invested nearly \$40 million in various unregulated infrastructure projects.

During 2012, Aqua America received rate awards in New Jersey, Pennsylvania, Ohio, Illinois, Texas, Indiana, Virginia and Florida, and infrastructure surcharges in various states, which are estimated to increase annualized revenues by approximately \$52.9 million. The company currently has \$9.2 million of rate cases pending before state regulatory bodies in Texas and Virginia. The timing and extent to which rate increases might be granted by the applicable regulatory agencies will vary by state.

Aqua's management continues to work diligently to control expenses and in 2012 improved the operations and maintenance expense to revenue ratio by 150 basis points through cost control programs, including those aimed at reducing purchased water, electricity (due to our four solar farms) and fuel expenses.

As of December 31, 2012, Aqua America's weighted average cost of fixed-rate long-term debt was 5.06 percent, and the company had \$110.8 million available on its credit lines. In September, Standard & Poor's reiterated its A+ credit rating for Aqua Pennsylvania, Inc., Aqua America's largest subsidiary. Of the 229 electric, gas and water utilities rated by Standard & Poor's, only one has a higher rating than Aqua Pennsylvania.

Aqua America offers a commission-free dividend reinvestment and direct stock purchase plan (DRP) that allows shareholders to reinvest their dividends at a 5 percent discount to the market price. If you would like a prospectus and application for the DRP, please visit www.aquaamerica.com or call 800.205.8314. **Please read the prospectus carefully before you make a decision to invest.**

Thank you.

Nicholas DeBenedictis
Chairman and President

This letter contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among others: the projected impact of the repair tax accounting change on the company, customers and shareholders; the anticipated continuation and amount of the repair tax deduction in 2013 and future years; the amount of capital spending by the company planned for 2013 and the effects of such investments; the impact of completed and pending rate cases; the company's continued commitment to its growth-through-acquisition strategy; and the company's plans to file future rate increases and the timing of the estimated impact of such cases. There are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements including: general economic business conditions, unfavorable weather conditions, the success of certain cost containment initiatives, the timing and extent of rate awards, changes in regulations or regulatory treatment, availability and the cost of capital, the success of growth initiatives, and other factors discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which is on file with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement.