

2016 Analyst Day

AQUASM

NYSE: WTR



January 14, 2016 – NYSE

Forward Looking Statement

This presentation contains in addition to historical information, forward looking statements based on assumptions made by management regarding future circumstances over which the company may have little or no control, that involve risks, uncertainties and other factors that may cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors include, among others, the following: general economic and business conditions; weather conditions affecting customers' water usage or the company's cost of operations; the success of cost containment initiatives, including costs arising from changes in regulations; regulatory treatment of rate increase requests; changes in the valuation of our investment in our joint venture in the Marcellus shale region; availability and cost of capital; the success of growth initiatives, including pending acquisitions; the effect of regulation on consolidation of the industry; the ability to generate earnings from capital investment; and other factors discussed in our Form 10-K for the fiscal year ended December 31, 2014, which is on file with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement.

Non-GAAP Reconciliation

For reconciliation of non-GAAP financial measures, see the Investor Relations section of the company's Web site at www.aquaamerica.com


Presentation Agenda

1. **Overview of Aqua America** – Christopher Franklin
2. **Operations Overview** – Rick Fox
3. **Financial Update** – Dave Smeltzer
4. **Regulatory Update** – Kim Joyce
5. **Strategic Growth** – Dan Schuller
6. **Summary and Outlook** – Christopher Franklin
7. **Q&A Session**

Thank You for Joining Us



Today's Objectives

- 
- Senior Leadership Team Introduction
 - Company Overview
 - Growth Strategy
 - Transparency and Guidance

Today's Presenters



Christopher Franklin
President and CEO



Richard Fox
EVP and COO
Regulated Operations



Dave Smeltzer
EVP, CFO



Kim Joyce
Director, Legislative and
Public Affairs and
Regulatory Counsel

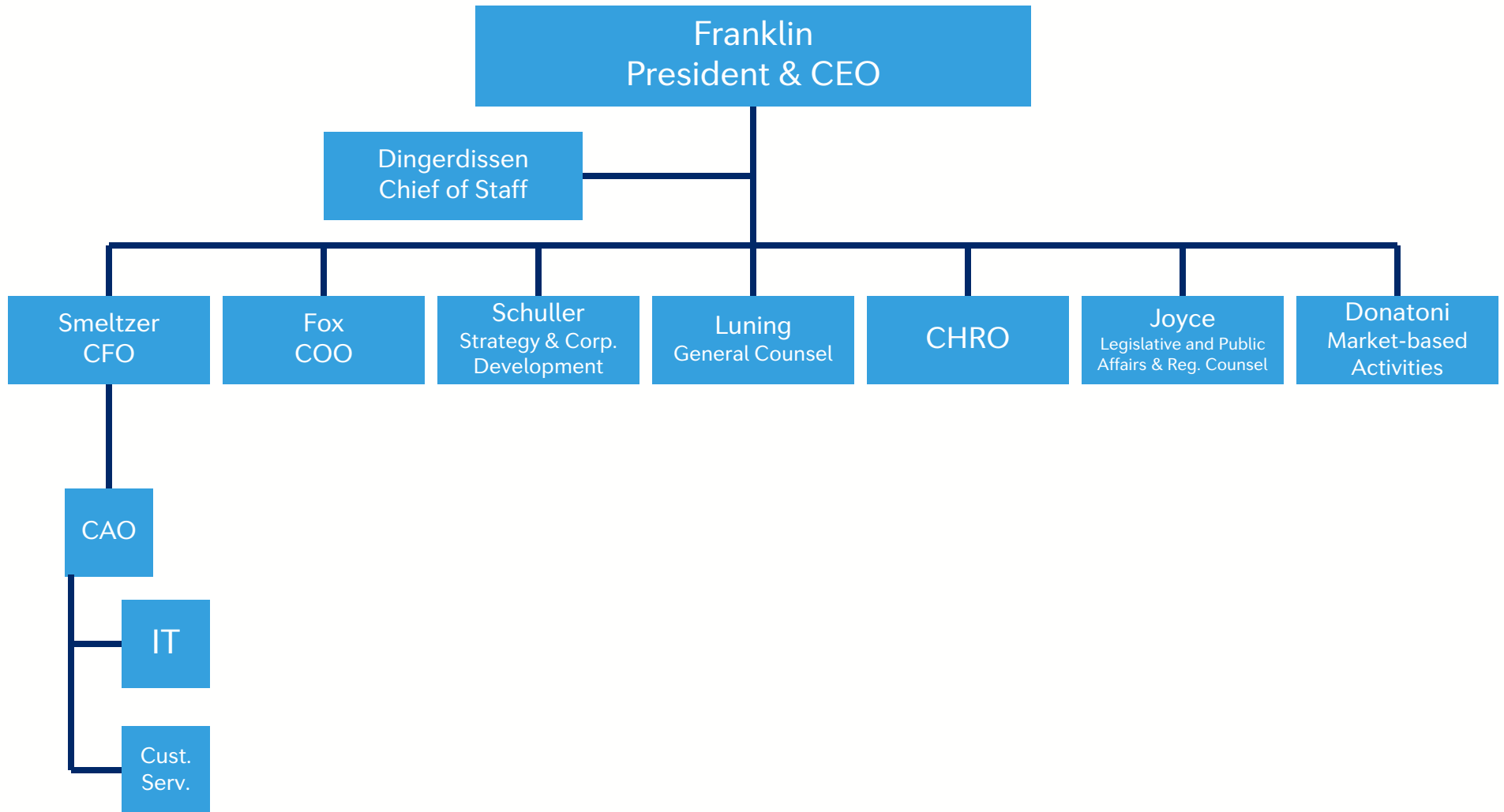


Dan Schuller, Ph.D.
EVP, Strategy and
Corporate Development



Brian Dingerdissen
Chief of Staff

Senior Leadership Team



Overview

Christopher Franklin

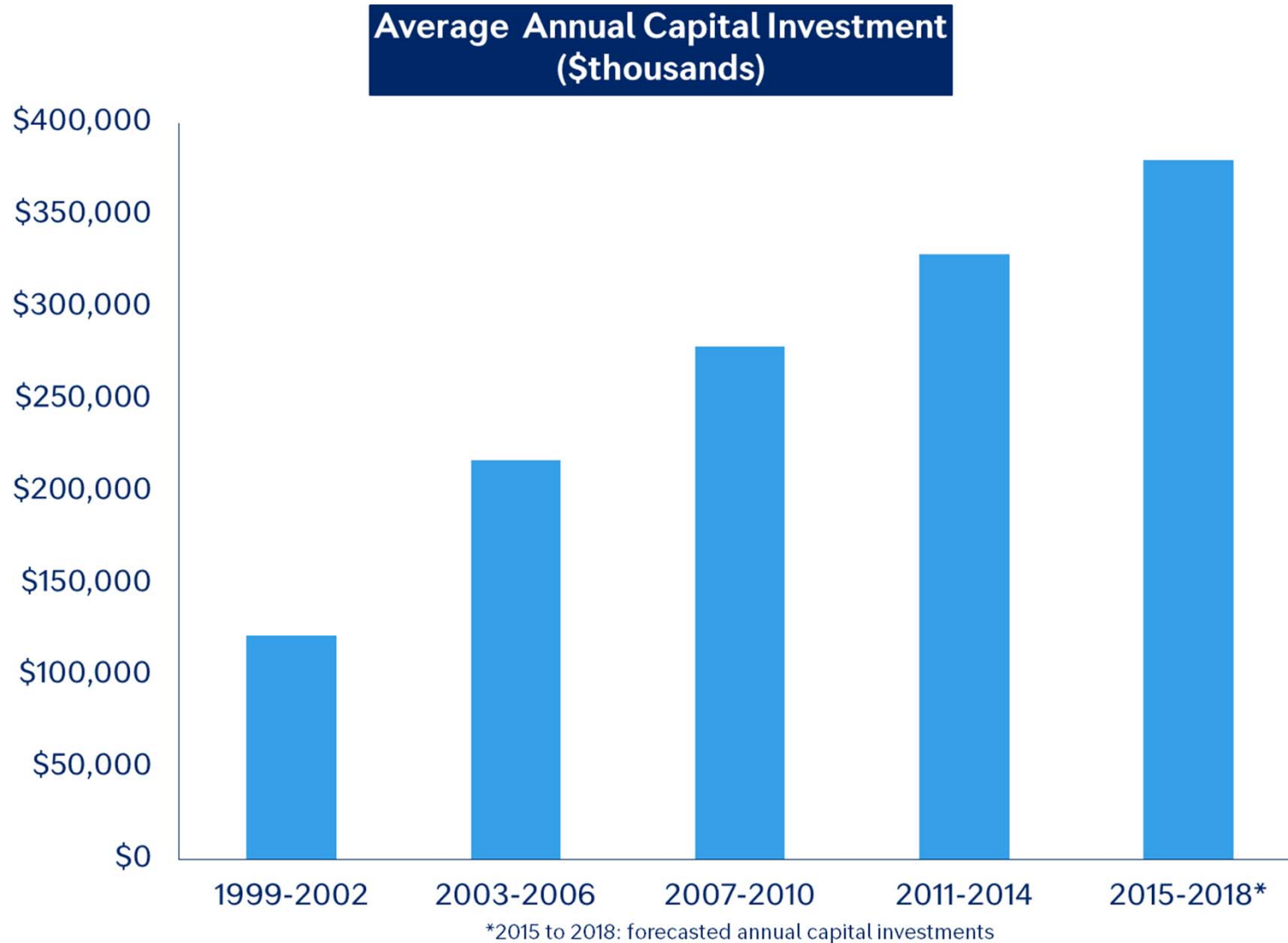
President and Chief Executive Officer



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Building for the Future

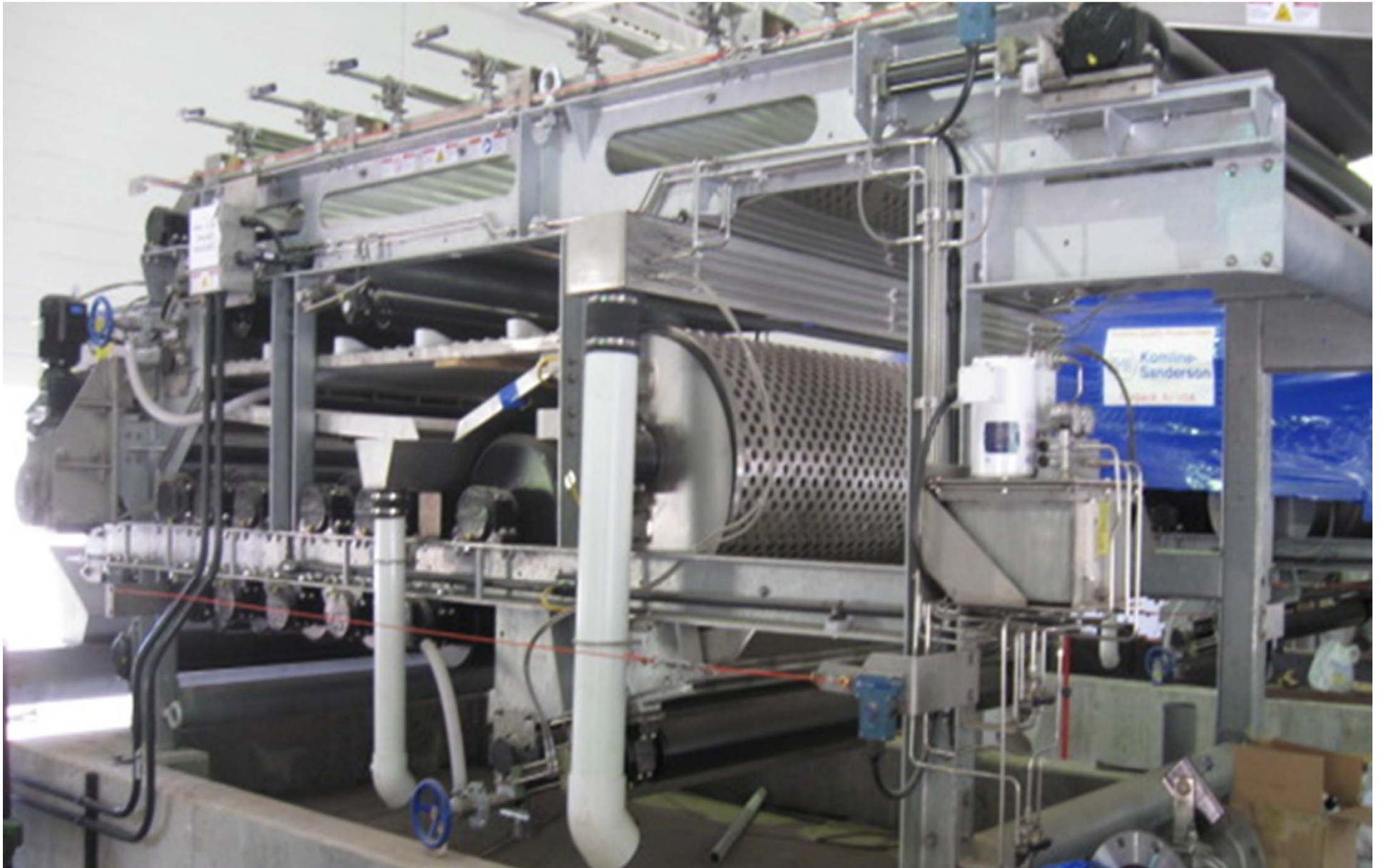


+\$1.1 Billion Planned for Next 3 Years

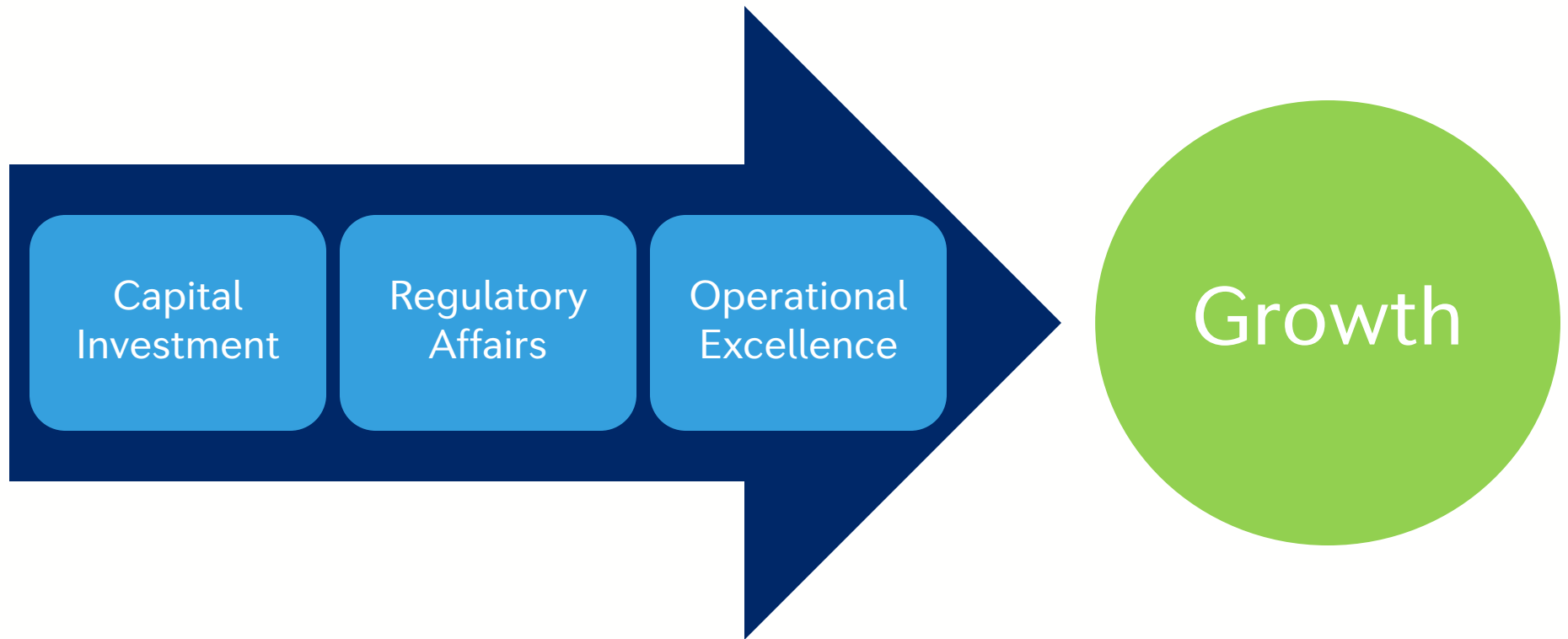
Regulatory Affairs



Operational Excellence



Capitalizing on Our Competencies



U.S. Regulated Water and Wastewater Industry Overview



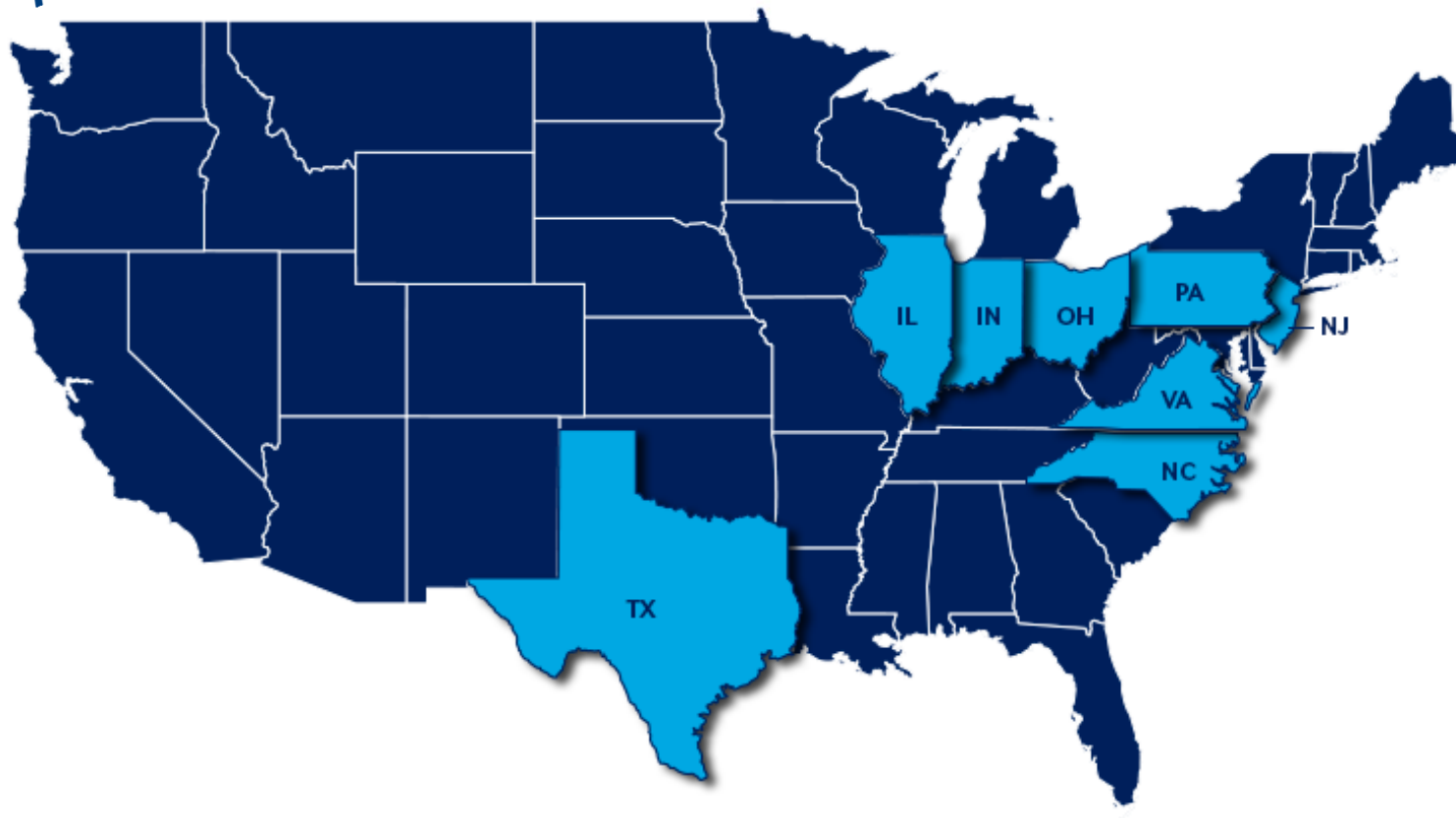
Water

- 53,000 systems
- 85% of population served by municipalities
- Aqua serves 1% of U.S. population



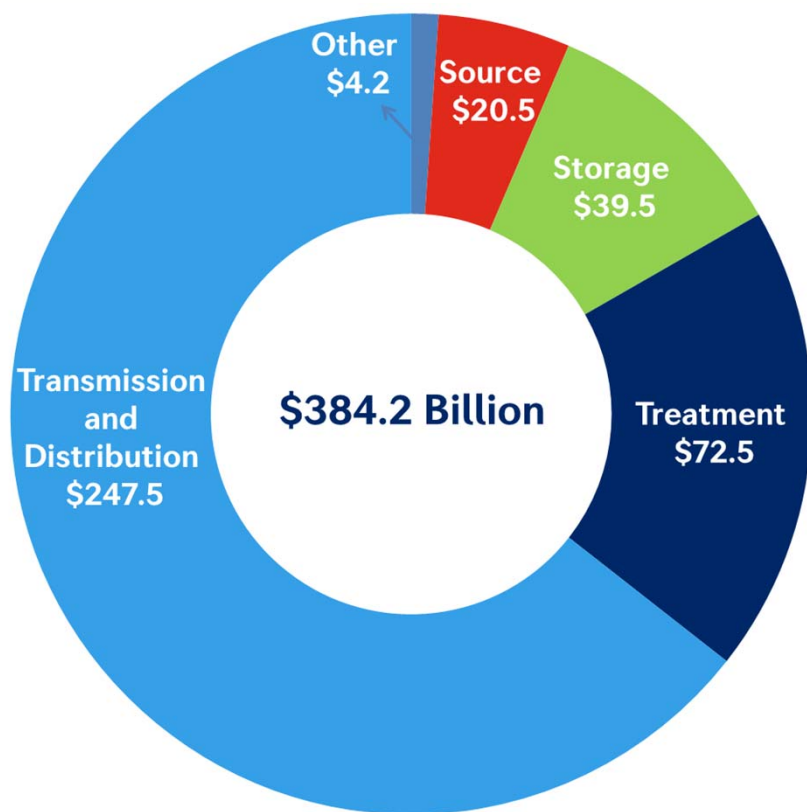
Wastewater

- 16,000 systems
- 97% of population served by municipalities
- Aqua serves 0.1% of U.S. population



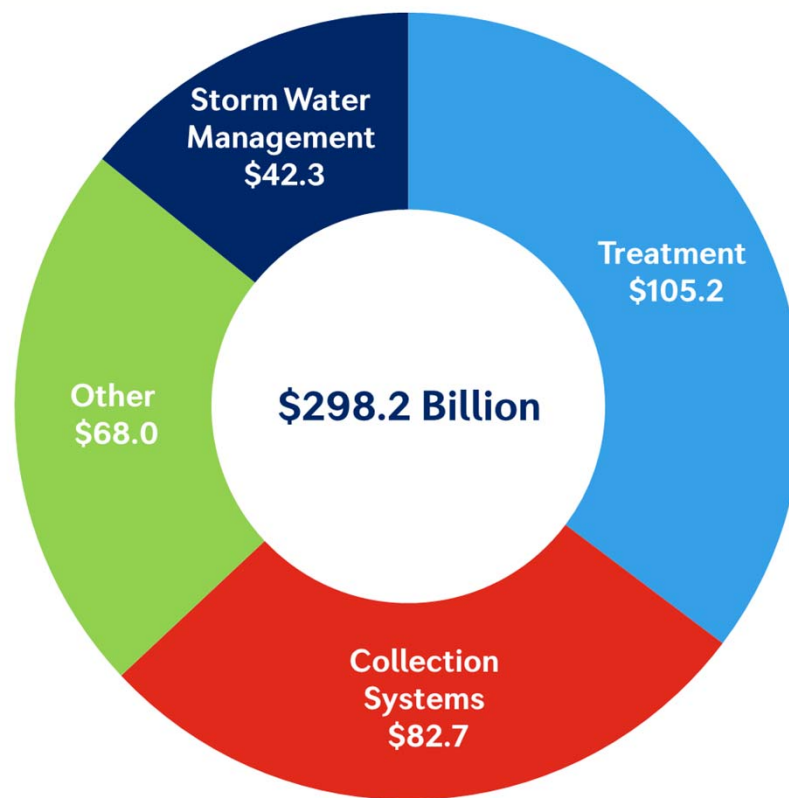
EPA's Estimate of the National Need for Infrastructure Investment

Water



Source: 2013 EPA Needs Survey

Wastewater



Source: 2013 ASCE Infrastructure Report Card

American Society of Civil Engineers Grade for Drinking Water and Wastewater Infrastructure = D

Company Overview



- 130 years of history
- Large multi-state water & wastewater company
- Proven growth model
- Strong balance sheet
- History of industry leading profitability
- Above average dividend growth

Mission: Protecting and Providing Earth's Most Essential Resource

Sustainability

Customers

- Compliance
- Near 100% Reliability
- Responsible Rate Increases
- Trusted Partner
- Top of Class Customer Service

Communities

- Regulatory Innovation
- Civic Involvement
- Steward of Environment
- Rebuild Infrastructure
- Promote Economic Growth

Employees

- Concern for Work Life Balance
- Ensure a Safe Working Environment
- Demonstrate Fair Pay / Benefits
- Growth and Development Opportunities
- Utilize Technology to Improve Efficiency
- Labor/ Mgmt Partnership

Shareholders

- Above Industry Average Long-term Growth
- Stable (Utility) Risk Profile
- Above Average Dividend Growth
- Buyback Opportunities

Aqua's Growth Platform

Capital Investment



Acquisitions and Organic Customer Growth



Market-based Activities



Why Invest in Aqua?

- Aqua is one of the largest, publicly traded water and wastewater companies, poised to address the nation's significant infrastructure needs
- Aqua is a balanced growth investment with a long track-record of dividend growth and strong performance
- Aqua's commitment to a strategic approach to growth

Regulated Operations

Rick Fox

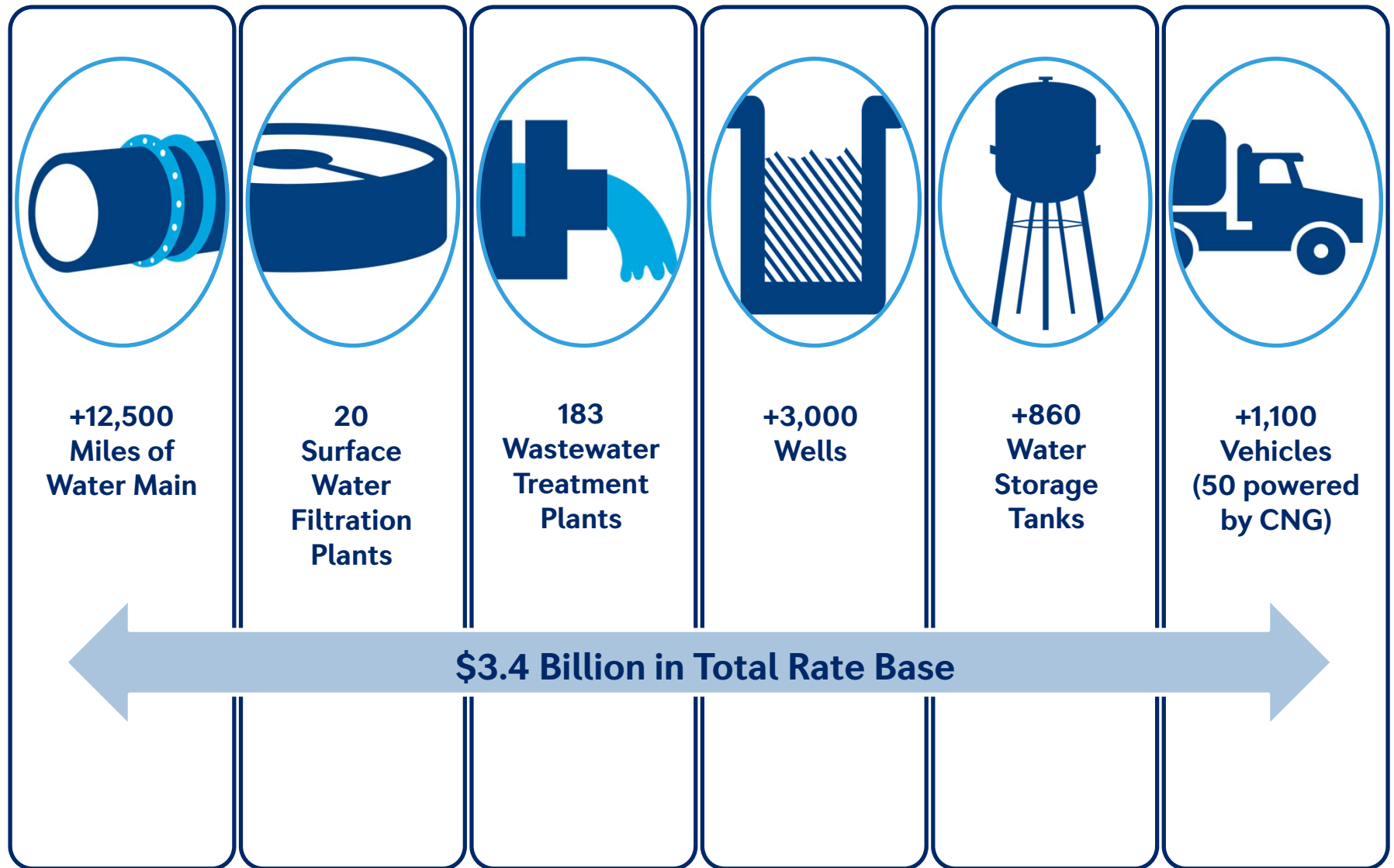
Executive Vice President and Chief Operating Officer, Regulated Operations



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Infrastructure Footprint



Infrastructure Investments

Proactive

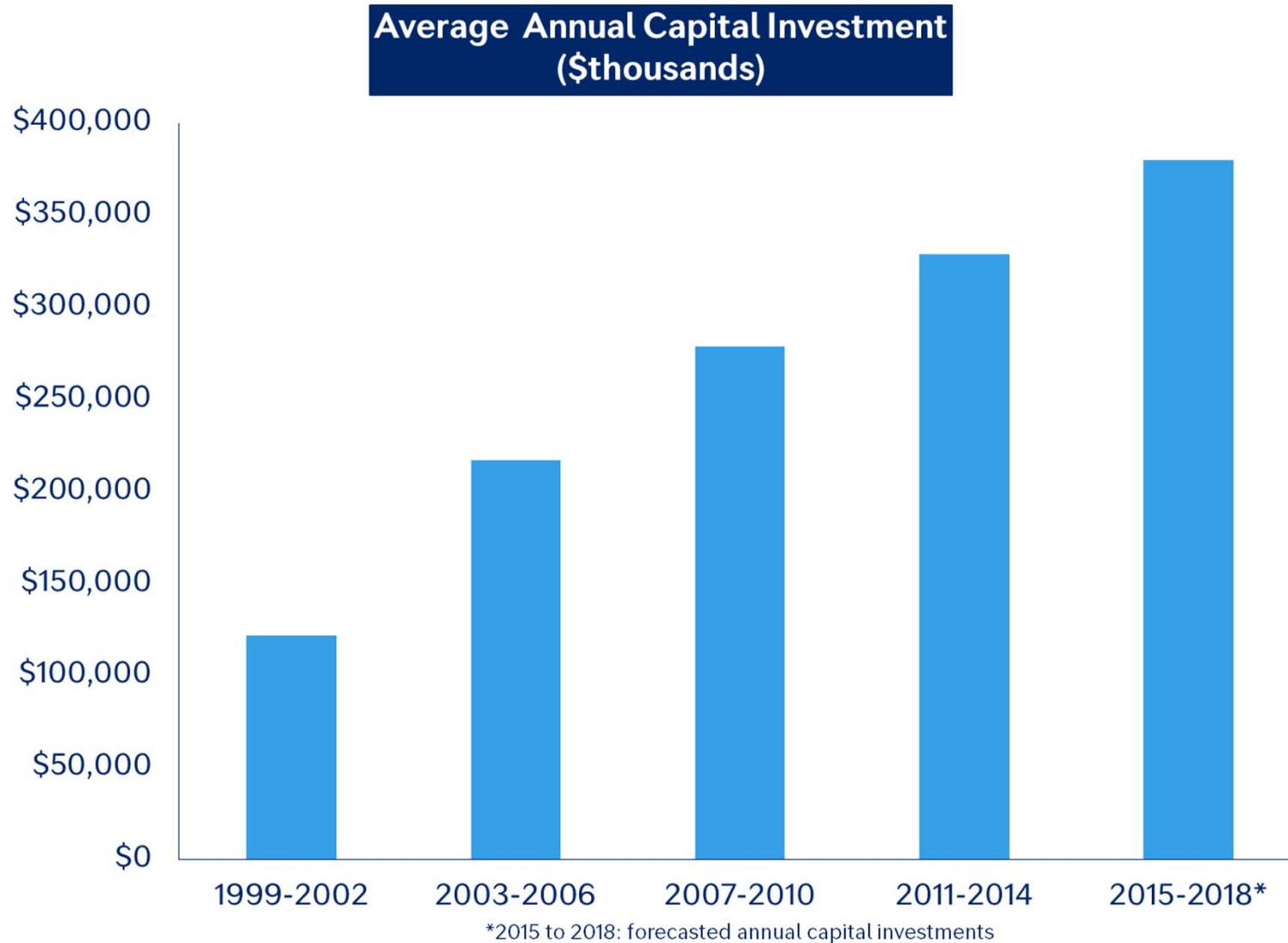


Reactive



Building for the Future

Regulated Operations

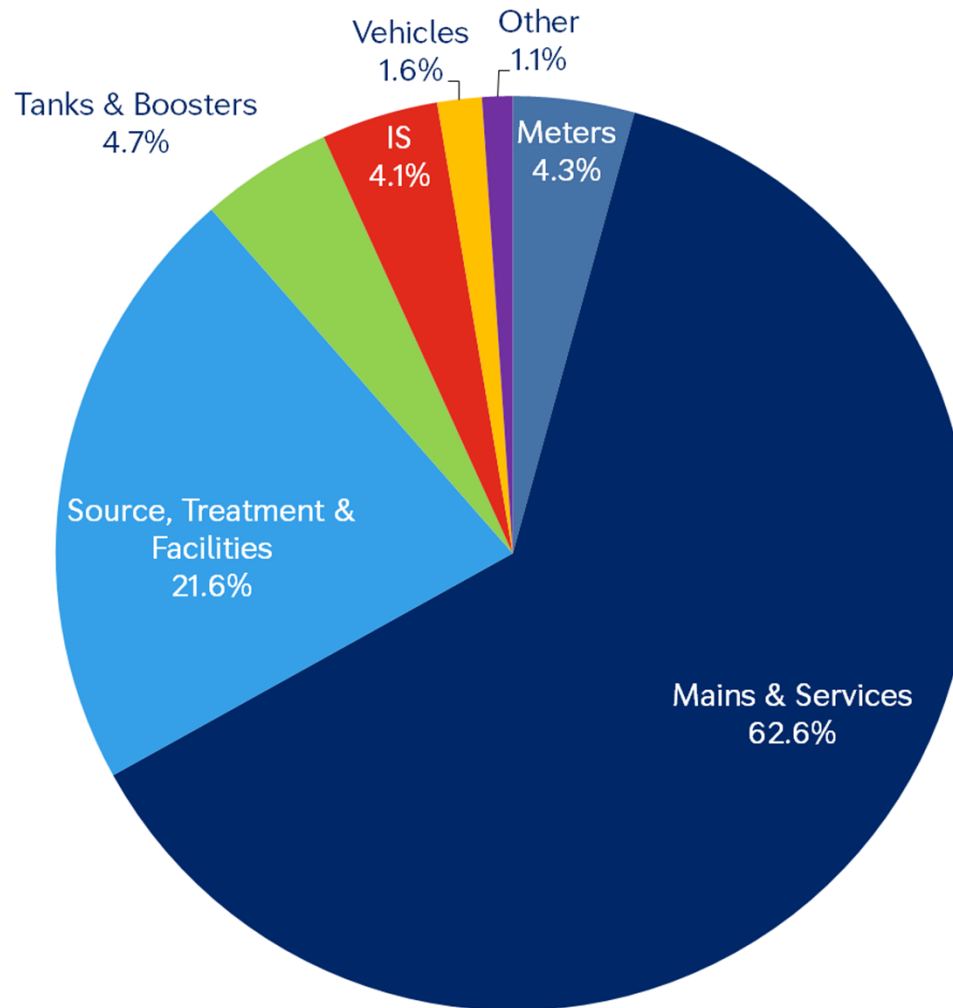


+\$1.1 Billion Planned for Next 3 Years

Capital Investment Spending

Regulated Operations

2016 to 2018 Capital Investment Breakdown



3 Year Total = +\$1.1 Billion

State by State Comparison

as-of Sept. 30, 2015

State	Rate Base (\$millions)	Water Connections	Wastewater Connections
PA	\$2,369	426,709	19,773
OH	251	143,493	6,649
IL	209	62,610	9,614
TX	192	60,256	15,681
NJ	132	52,012	5,984
NC	125	77,894	16,974
IN	69	874	24,646
VA	63	24,202	7,370
Total	\$3,412	848,050	106,691

Efficiently Serving our Customers an Essential Product



- **7:1 Business Model**
- **Examples**
 - Purchased water reduction
 - Eliminating costly outside services
 - Conversion to CNG powered fleet

Purchased Water Reduction

- **Contract expires in 2017**
- **3.5 mgd of high cost purchased water**
- **Capital investment: \$17M**
 - Source
 - Pumping
 - Transmission facilities
- **Annual expense savings: \$7.3M**
- **Ratio: 2.4 to 1**



Outside Services

- **Aqua North Carolina** historically used an outside contractor to clean wastewater lift stations and grinder pump tanks for maintenance
- **Capital investment : \$292k**
 - Pumper truck
 - Drying pads (4)
- **Annual expense savings: \$54k**
- **Ratio: 5.4 to 1**



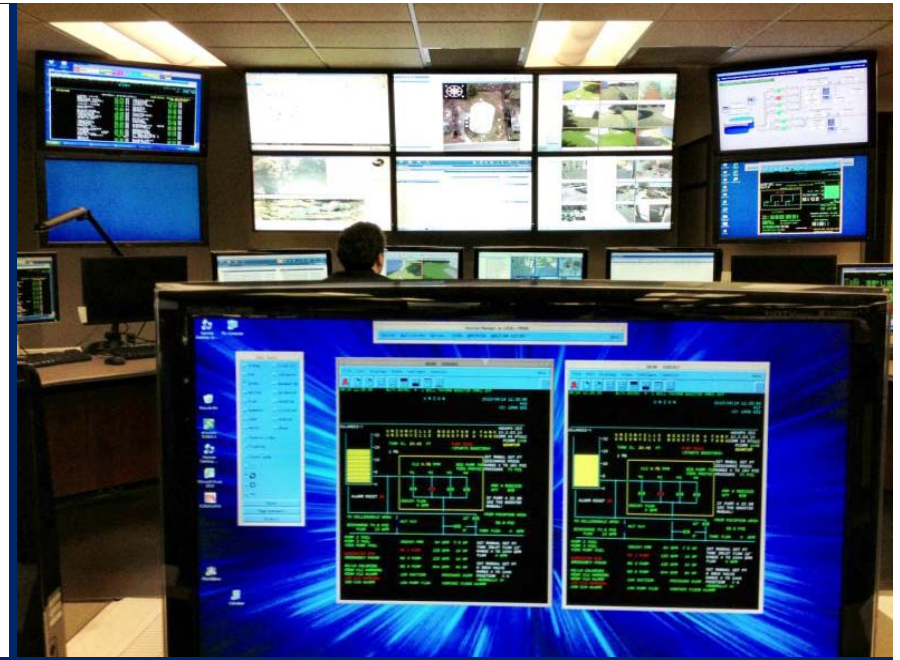
Compressed Natural Gas (CNG) Vehicles

- Initiated in 2011
- Fleet of 50 vans, dump trucks & bi-fuel pickups (all OEM)
- Constructed 3 “time-fill” stations in PA
- 90 CNG vehicles planned by 2020
- Received grants totaling \$383,000 (PA Act 13, AFIG & ACE programs)
- Ongoing fuel savings
- Ratio: 4-7 to 1



Electricity Load Response Programs

- Demand Response
- Peak Response
- VirtuWatt real time monitoring technology
- Participation by 22 WTP's & boosters
- Cost savings of \$500,000/year
- National Association of Water Companies award
- Platt's Global Energy award finalist



Continued Success and Growth in Alternative Energy



- Aqua's four solar fields generate over 4 million kWh or \$400,000 savings per year
- US EPA Green Power Partnership
- Investigating additional alternative energy projects

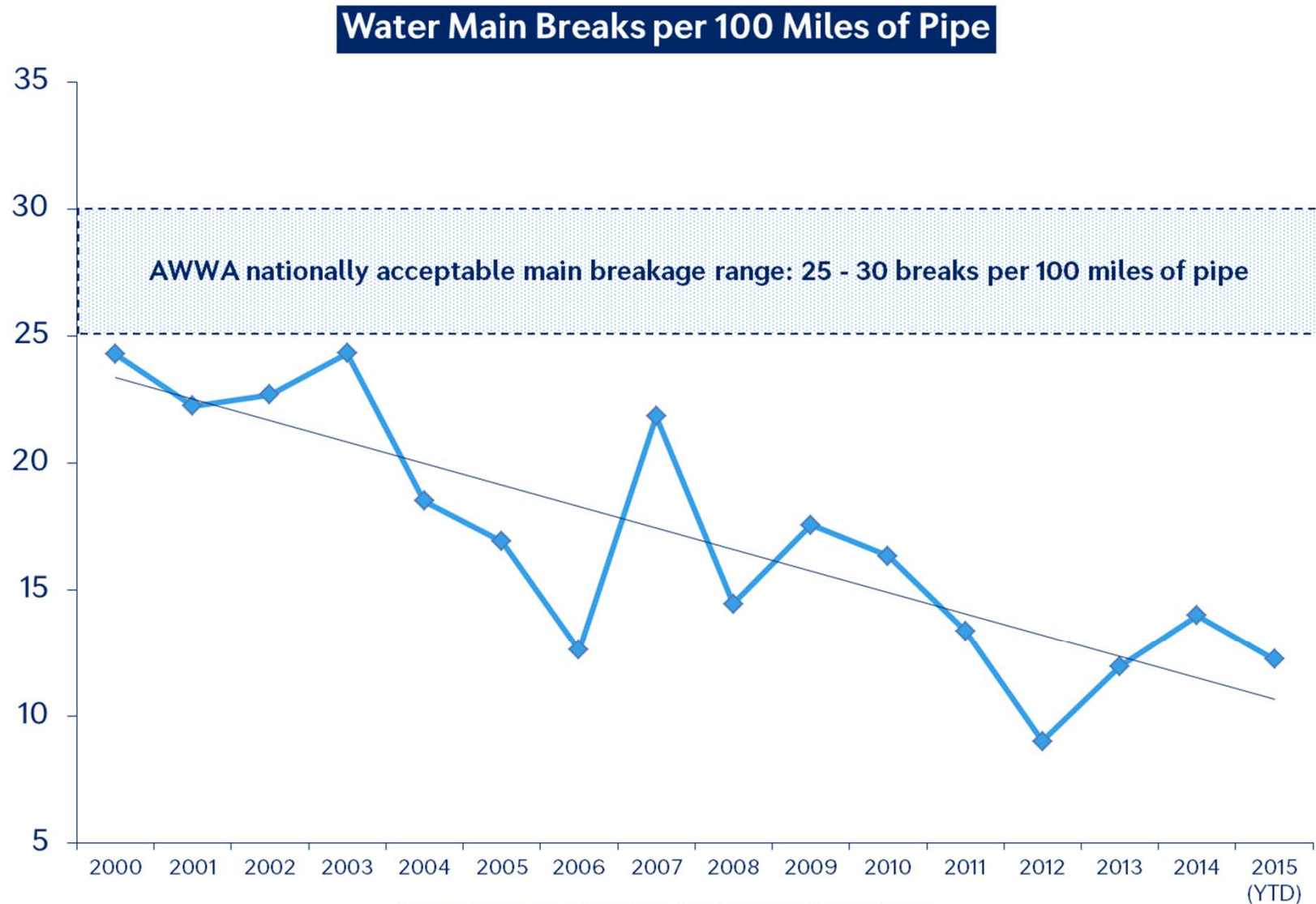
UltraBattery Deployment

Upper Merion, PA Water Treatment Plant

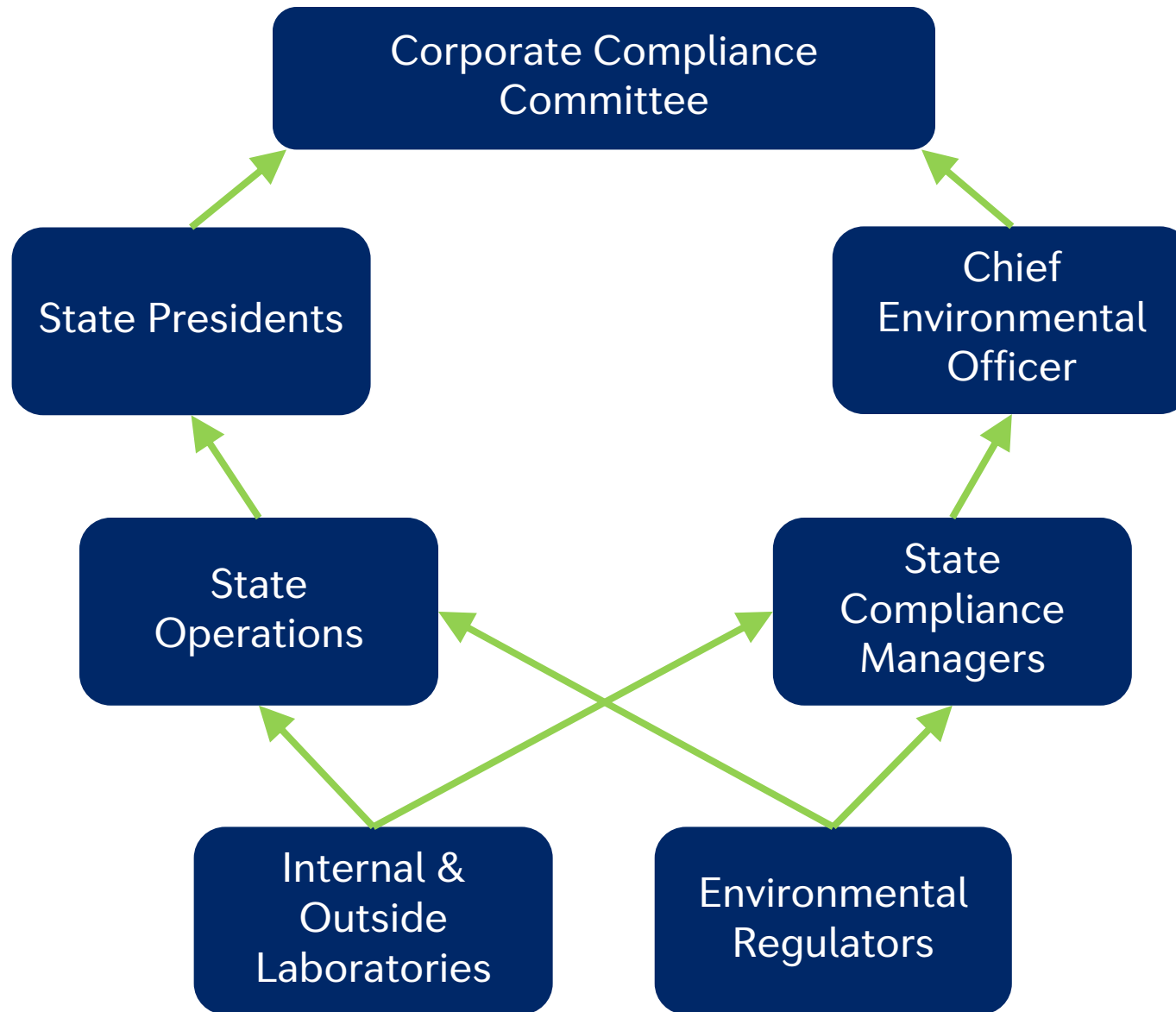
- 750 kW capacity battery for frequency regulation on PJM grid
- \$500,000 grant awarded to Constellation (battery owner)
- As battery “host”, Aqua shares in proceeds from PJM
- Payments expected to be \$75,000 per year
- Batteries manufactured in PA & will be fully recycled at East Penn Manufacturing



Aqua S.E. Pennsylvania Main Break Averages

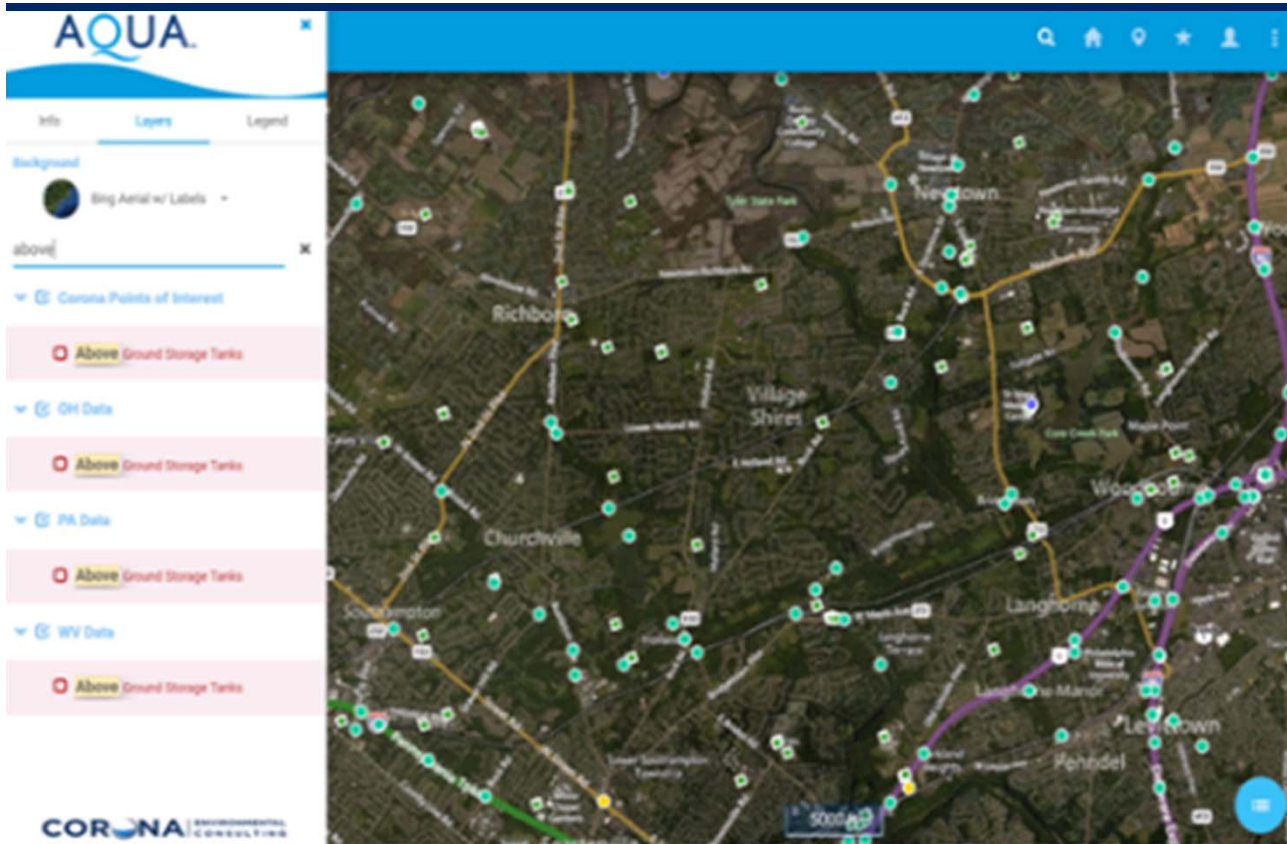


Compliance Reporting and Disclosure



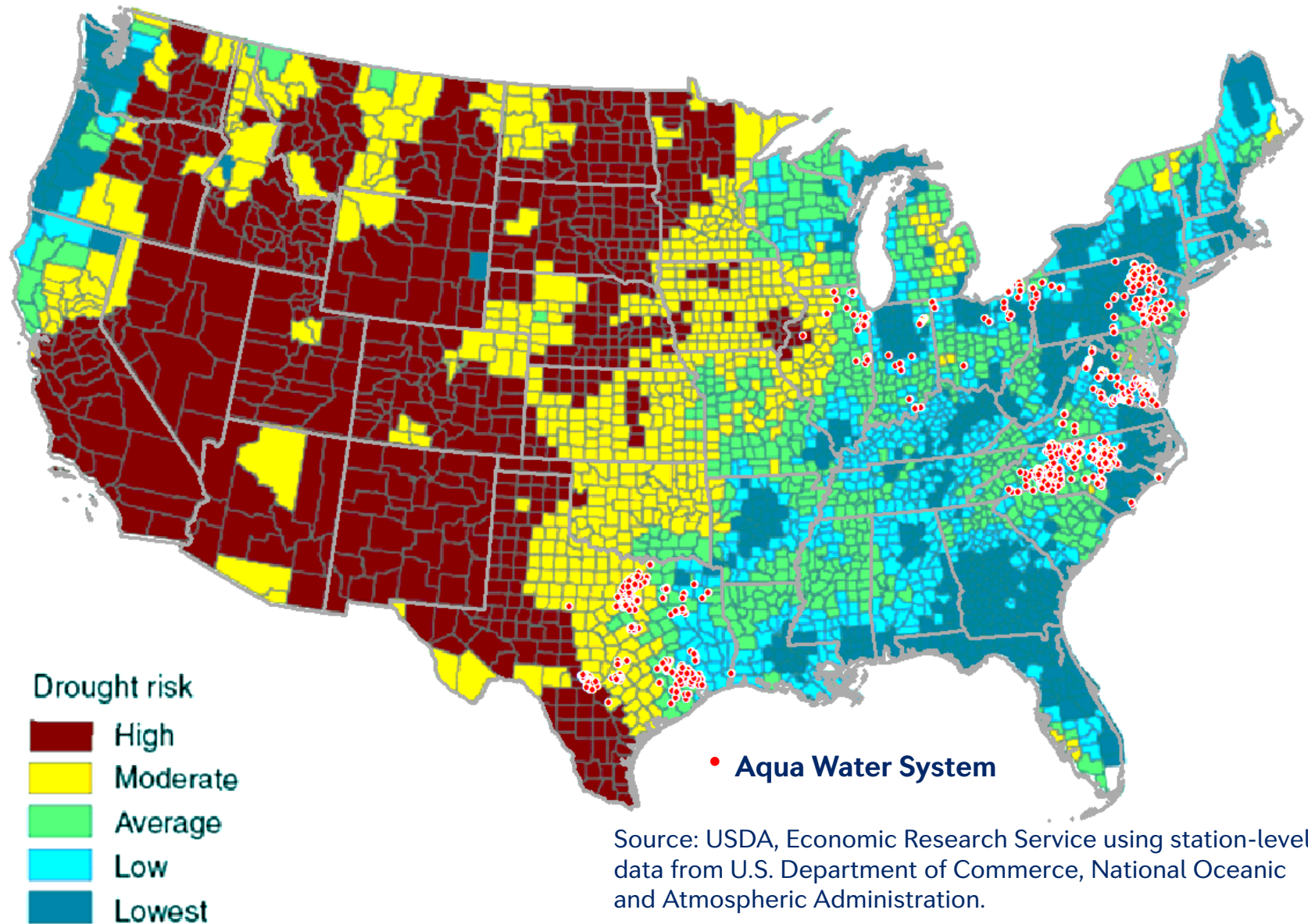
Source Water Vulnerability Tools

- **Centralized GIS-based source water assessment tools**
 - Dynamic multi-source database
 - Risk planning
 - Support for emergency response



In-stream toxicity
sensor

Water Scarcity



Employees

- More than 1,600 employees
- 435 licensed operators
- Employee development
 - Licensing
 - “Aqua University”
 - Tuition reimbursement



Safety is Non-negotiable



Safety Day



Trench Safety



Recognition



Personal Protective Equipment



Equipment Safety



Defensive Driving Course



WAVE

Financial Update

Dave Smeltzer

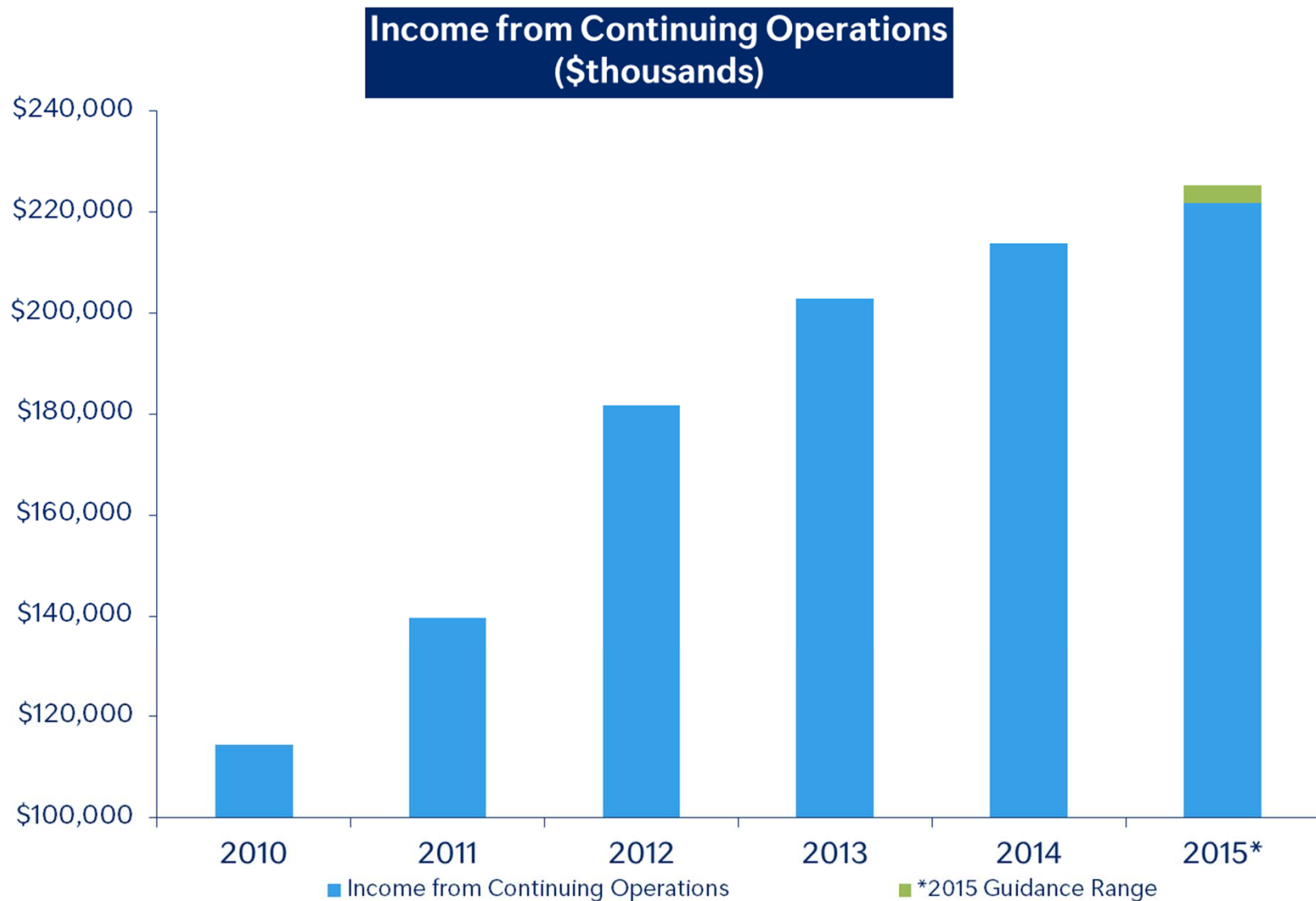
Executive Vice President and Chief Financial Officer



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Growth in Income from Continuing Operations



Source: 2014 Aqua Annual Report and 2015 Guidance Range

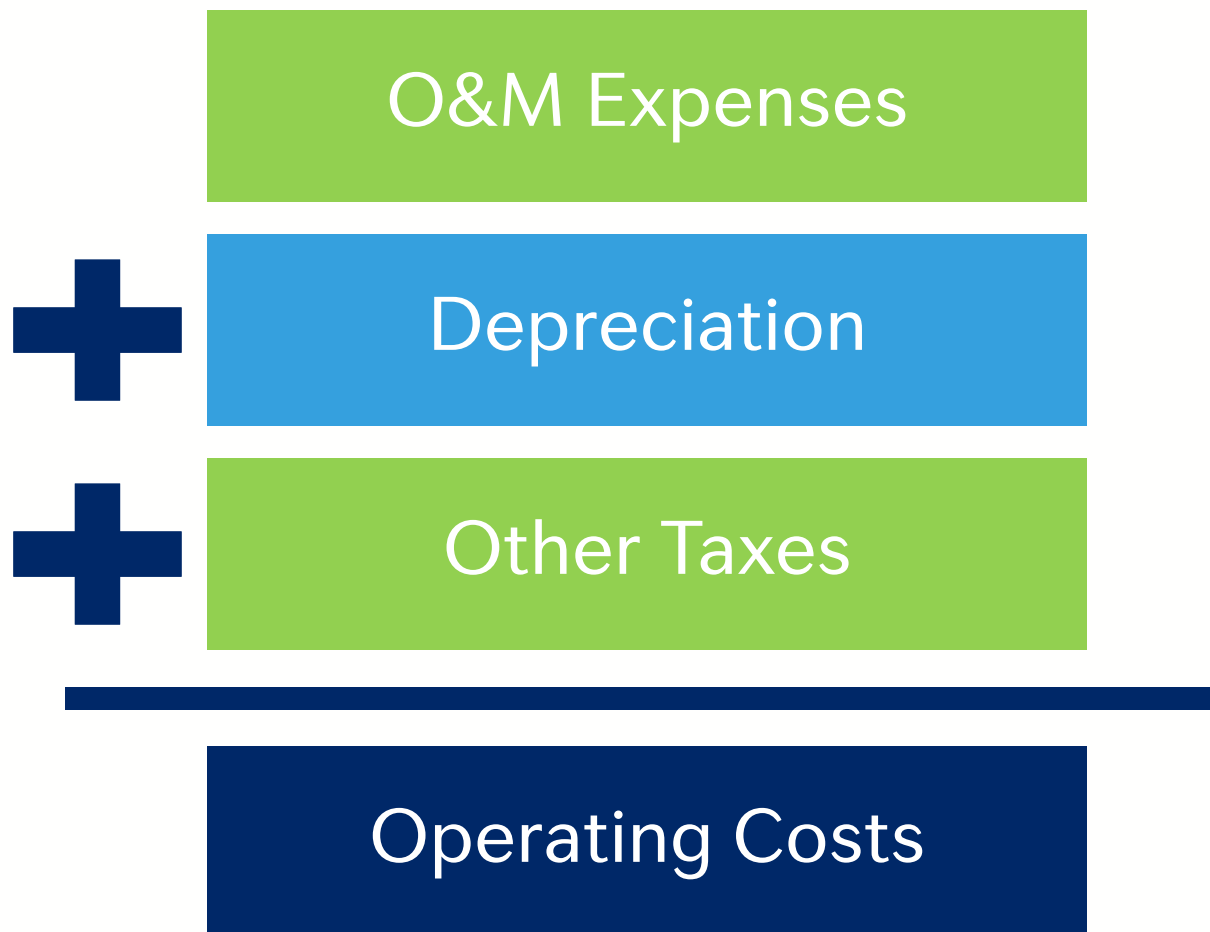
How Does Aqua Earn a Fair Return?

Step 1: Establish Rate Base

- **Deployment of Capital:**
 - Annual Capital budget
 - New Systems
- **Ratemaking Deductions:**
 - Accumulated Depreciation
 - Deferred Taxes
 - Contributed Capital

How Does Aqua Earn a Fair Return?

Step 2: Establish Operating Costs



How Does Aqua Earn a Fair Return?

Step 3: Establish Return on Capital

Rate Base X Equity % X ROE =
Net Income



Gross Up for Taxes



Rate Base x Debt % X Cost of Debt =
Debt Expense

Return on Capital

How Does Aqua Earn a Fair Return?

Step 4: Establish Revenue Requirement



Implementation of the IRS Repair Tax Deduction

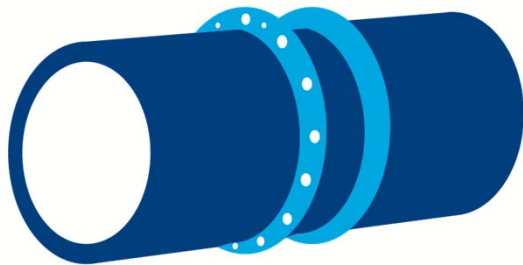
- Evolved from a FedEx case in 2005
- Deduction for jet engine replacement denied
- Supreme court decision
- A new tax deduction was created
- Typically done via deferred tax accounting

Pennsylvania Repair Tax

- **Repair tax deduction introduced in PA 2011 rate filing**
- **PA is one of several “flow through” states**
- **Flow through method required in final order (2012)**
 - 10 year amortization of catch up deduction required
 - Requirements for amortization established
- **Key stakeholders understood benefit to customers:**
 - Longer stay-out
 - Incorporation into next PA rate filing
 - Lower rates for customers for many years
- **Aqua PA implemented repair deduction in Q4 2012**

Aqua PA Adoption of the Repair Deduction

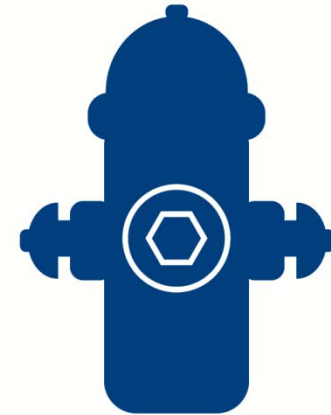
Primarily Infrastructure Rehabilitation Related



Mains & Services



Valves



Hydrants

- On a water main network of 5,600 miles, replacements of minor portions (generally less than 1 mile) are considered expense (not capital) for tax purposes

Continued Capital Deployment in PA

- More than \$800 million of capital deployed in PA since the last rate filing

Year	PA CAPX (\$thousands)
2012	\$129,923
2013	\$212,721
2014	\$214,155
2015*	\$248,200
Total	\$804,999

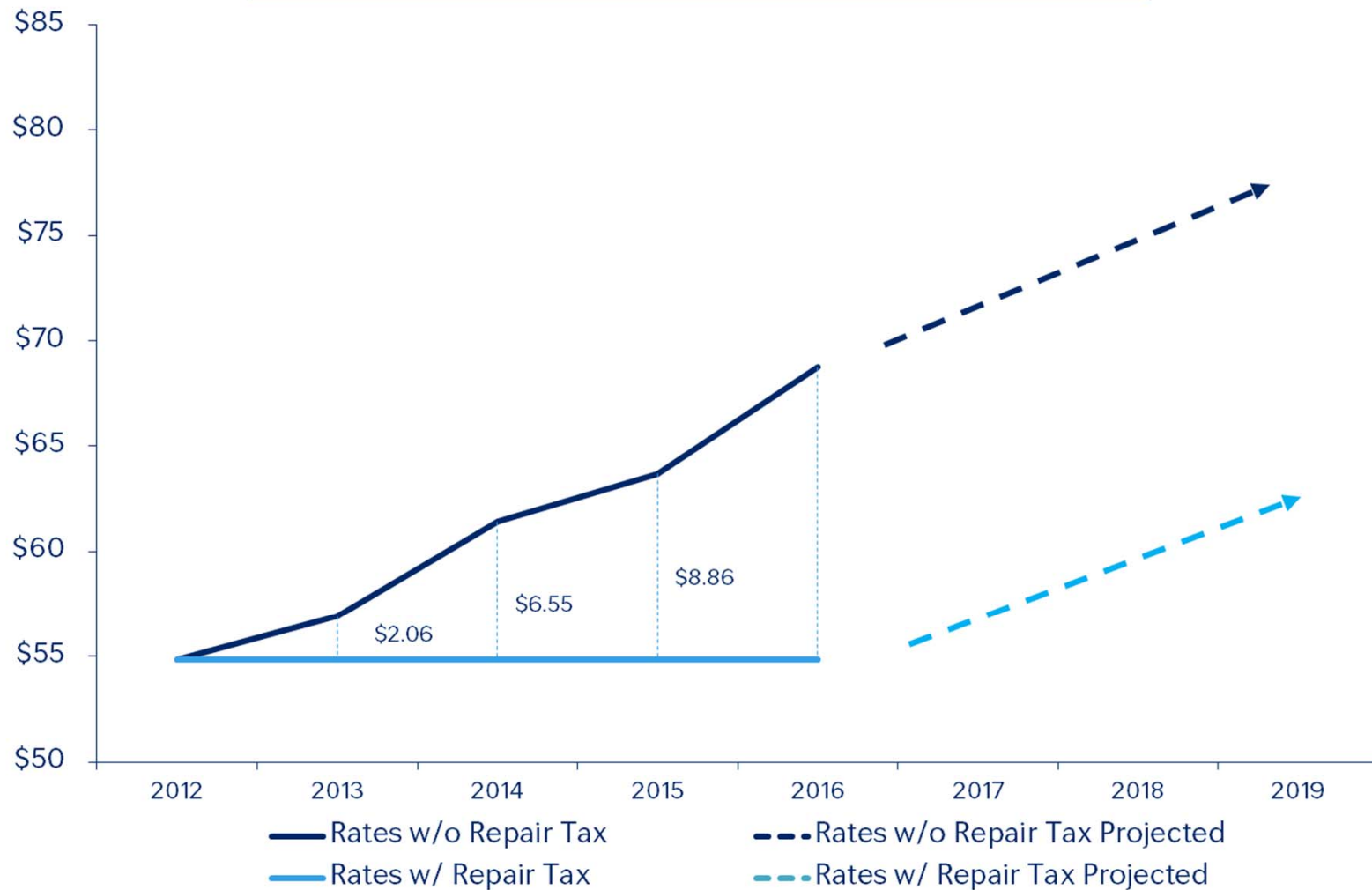
* 2015 amount is forecast

PA DSIC & Rates

- **PA DSIC / rate case timing**
- **Rate base increase of over \$1 billion from 2011 filing**
- **Typically require revenue increase of 45%**
- **Expect increases of DSIC + 5 – 10% rate increase**
 - Full incorporation of repair benefit into rates

Repair Deduction Benefits

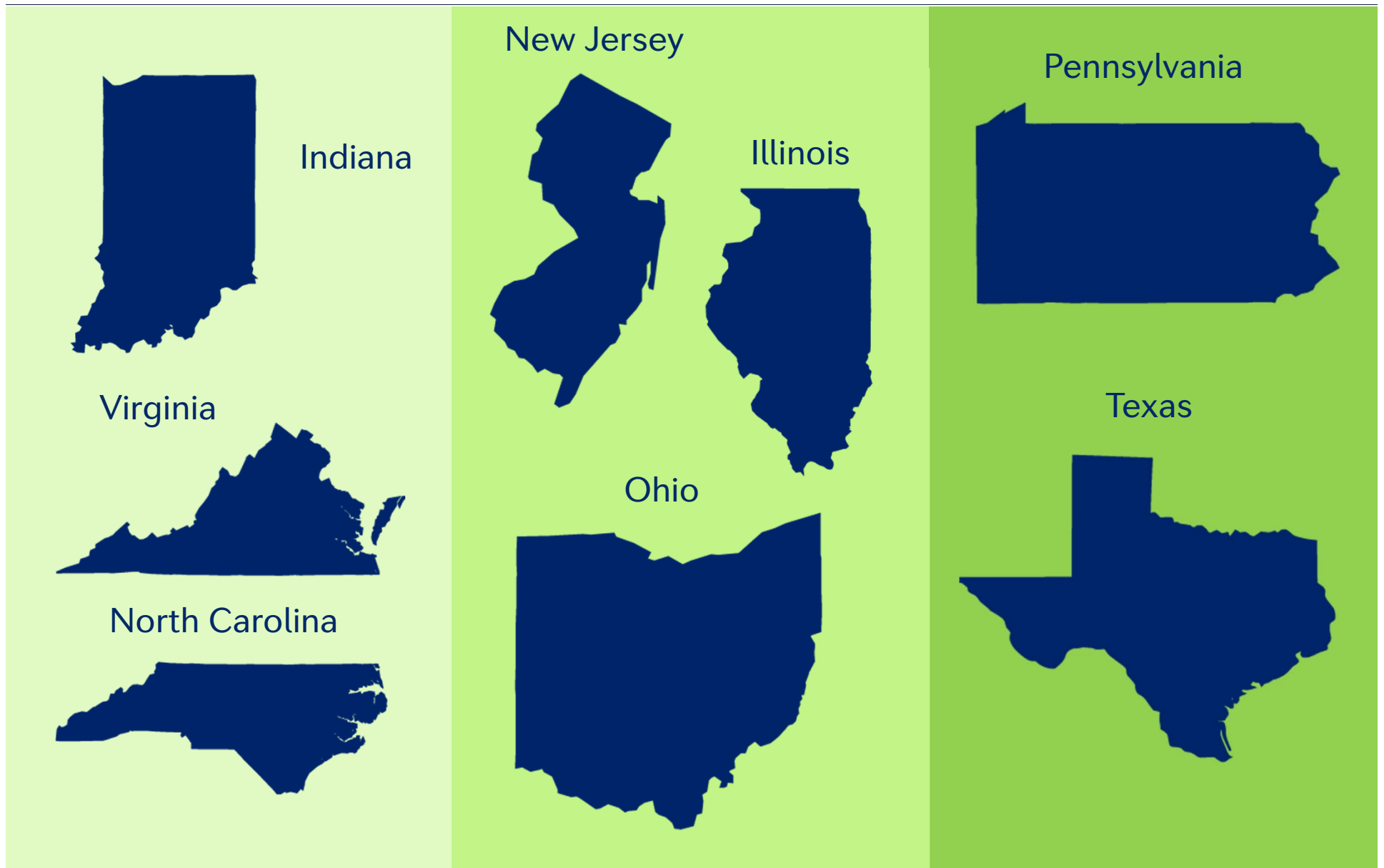
Projected Aqua Pennsylvania Customer Water Rates



Rates based on usage of 4,000 gallons per month

State Comparison: Allowed vs. Earned ROEs

As-of Sept. 30, 2015



2015 Highlights

Customer Growth

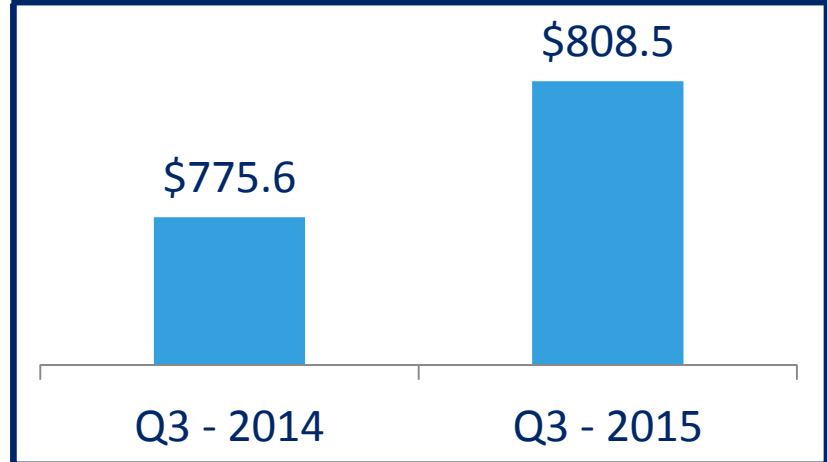
- 4 municipal, 12 private acquisitions
- 17,900* total customers
- 1.9%* customer growth

Annualized Dividend Rate of \$0.712

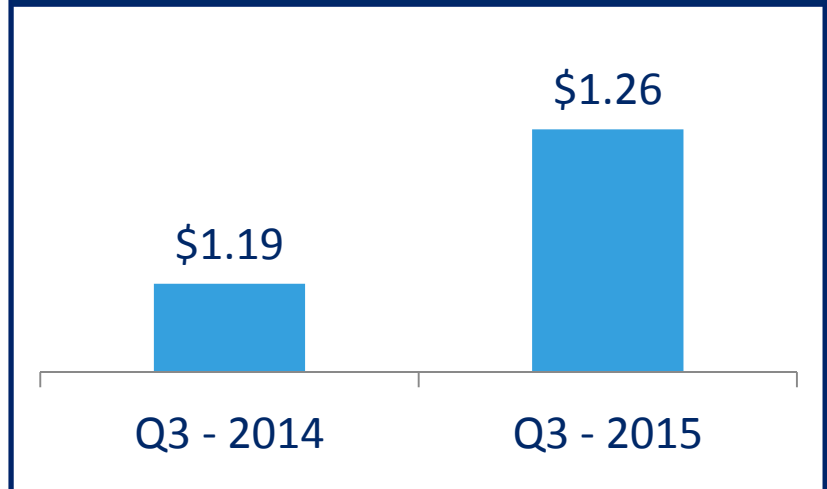
- Increase of \$0.052, or 7.9%
- 25th dividend increase in 24 years

*Includes estimated organic growth for Q4 2015

Operating Revenue (\$millions) (TTM)



Diluted Earnings Per Share Continuing Operations (TTM)



2015 Guidance

Earnings

- Full-year earnings per share between \$1.25 – \$1.27*

Customer Growth

- ~1.9% year-over-year customer growth

Capex

- More than \$325 million
- Ongoing rate base growth of 6 – 7%

Operations and Maintenance Expense

- Same-system O&M increase of ~2% for full year

*Discussions underway on appropriate valuation of Marcellus JV

Trailing Twelve Months Financial Results

as-of Sept. 30th, 2015

In millions except per share	2014		2015	Variance
Revenue	\$775.6	▲	\$808.5	4.2%
Operations and Maintenance	\$288.2	▲	\$305.6	6.0%
Income from Continuing Operations	\$211.2	▲	\$222.3	5.3%
Income from Continuing Operations per Share	\$1.19	▲	\$1.26	5.9%



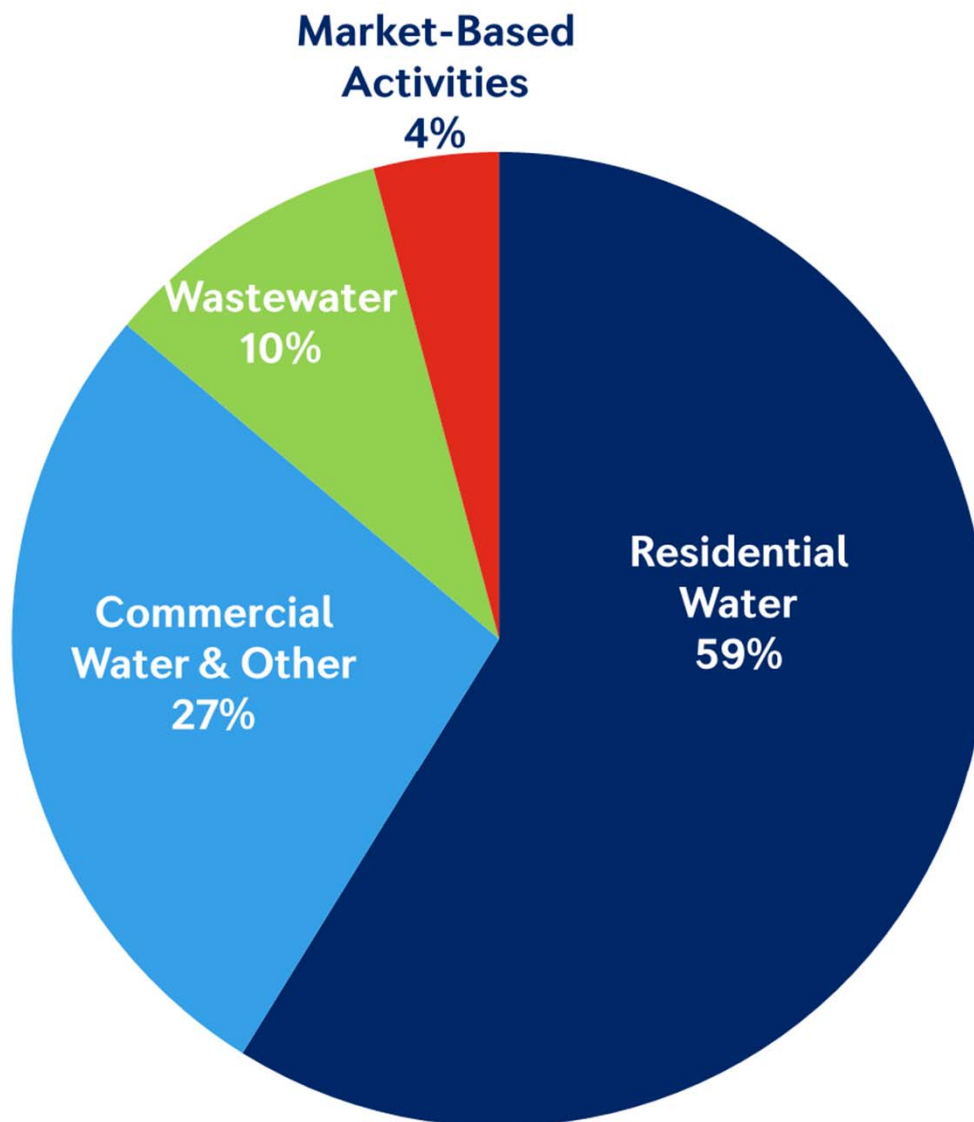
Unfavorable Change



Favorable Change

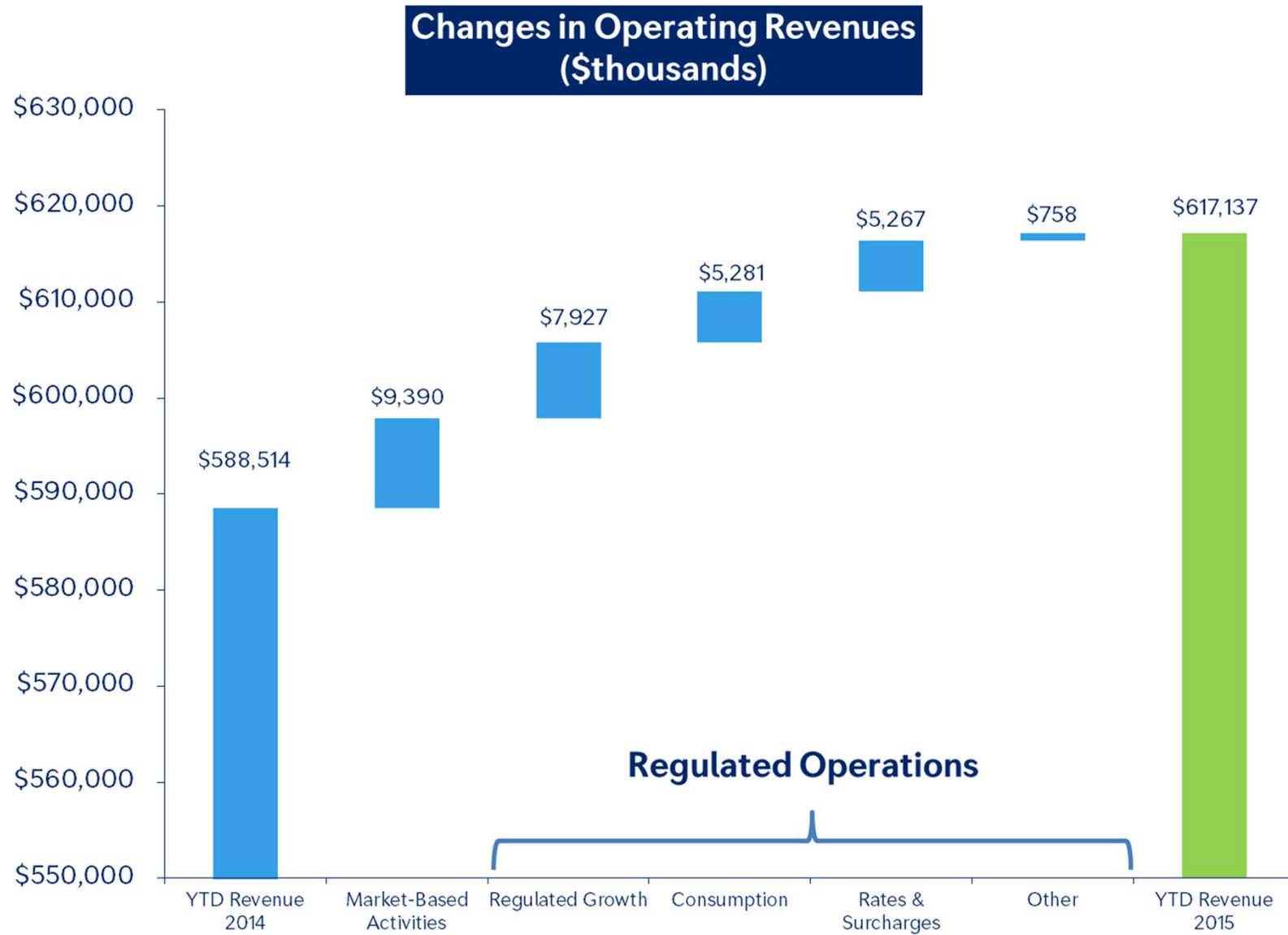
Revenue Components

TTM as-of Sept 30th, 2015



Operating Revenues

YTD Q3 2015 vs. YTD Q3 2014



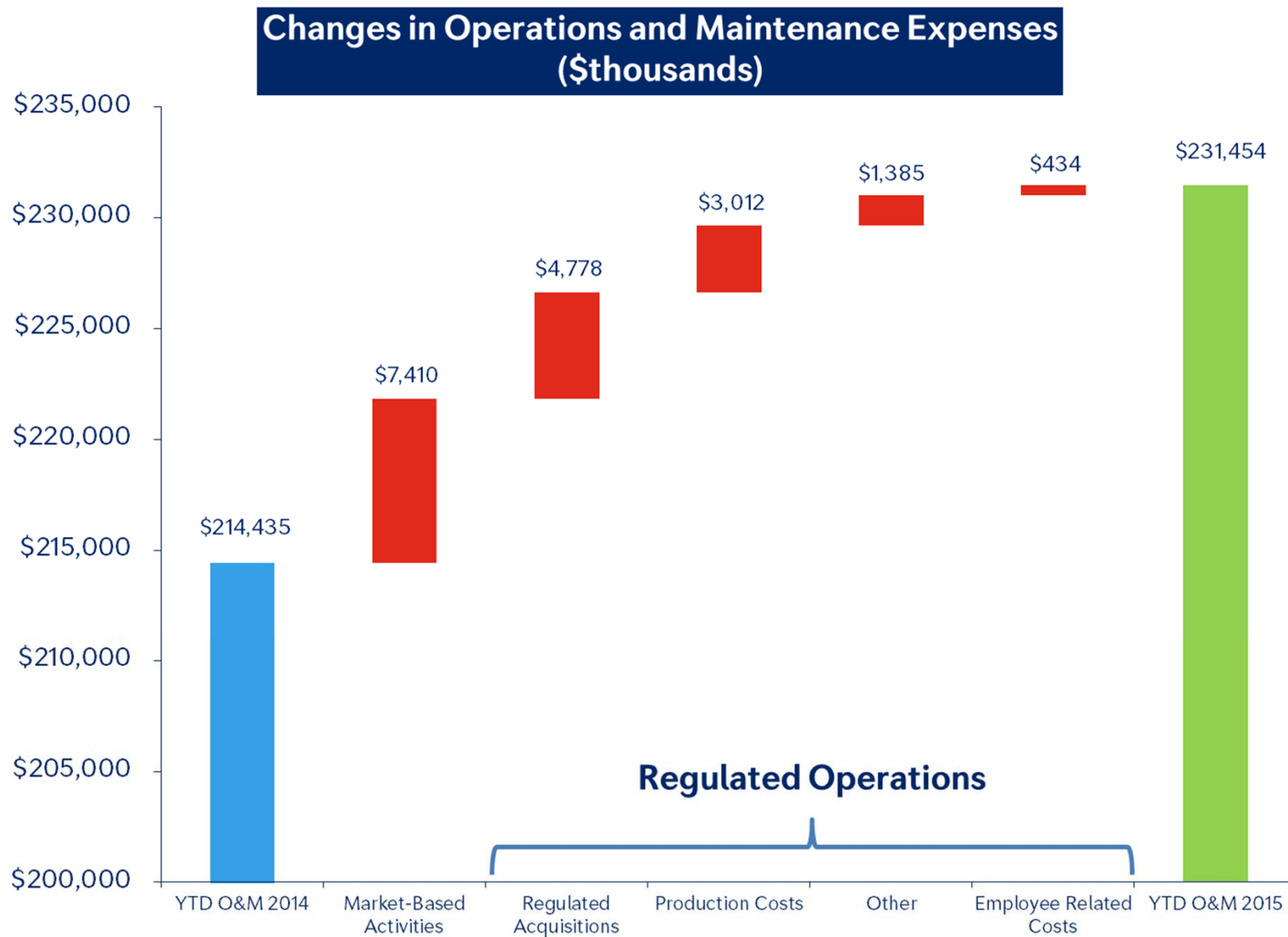
Operations & Maintenance Expenses

TTM as-of Sept 30th, 2015

Category	Percentage of Total Expense
Employee-related Costs	43%
Power	9%
Administration	8%
Purchased Water	7%
Maintenance	6%
Outside Services	5%
Other	5%
Chemicals	4%
Insurance	3%
Sludge & Wastewater Treatment	3%
Transportation	2%
Leases, Licenses & Permits	2%
Bad Debt Expense	2%
Total	100%

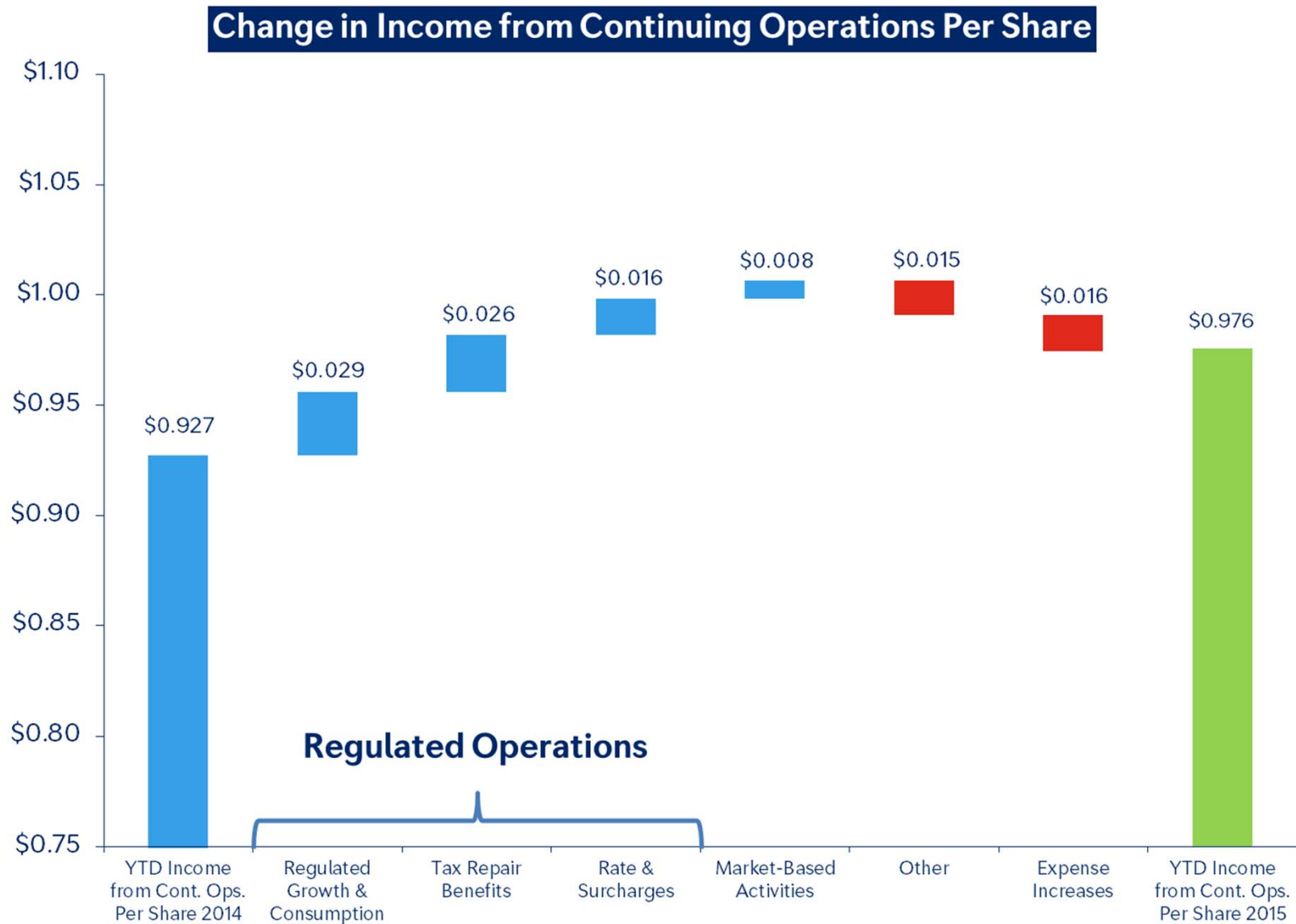
Operations & Maintenance Expenses

YTD Q3 2015 vs. YTD Q3 2014

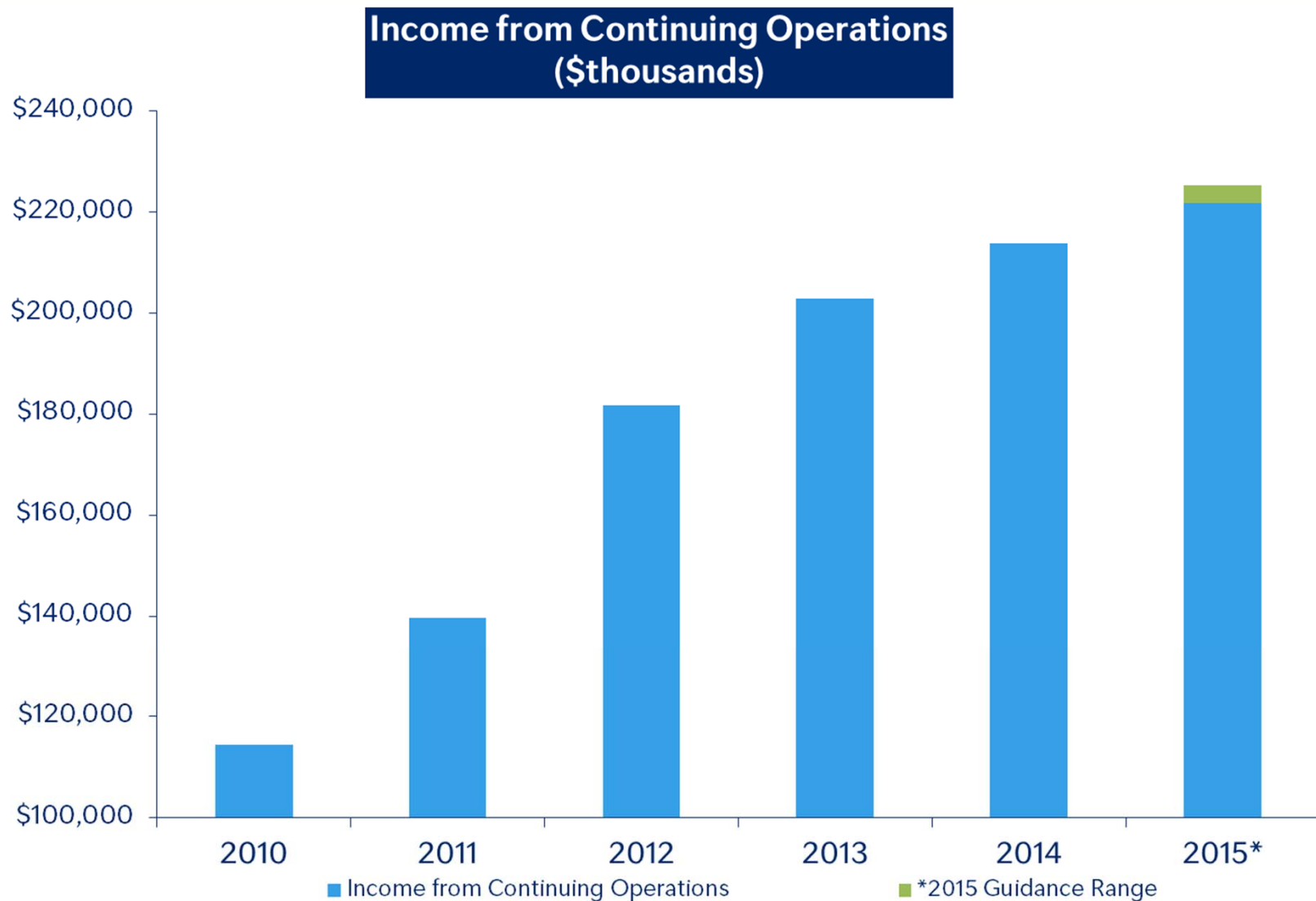


Income from Continuing Operations

YTD Q3 2015 vs. YTD Q3 2014



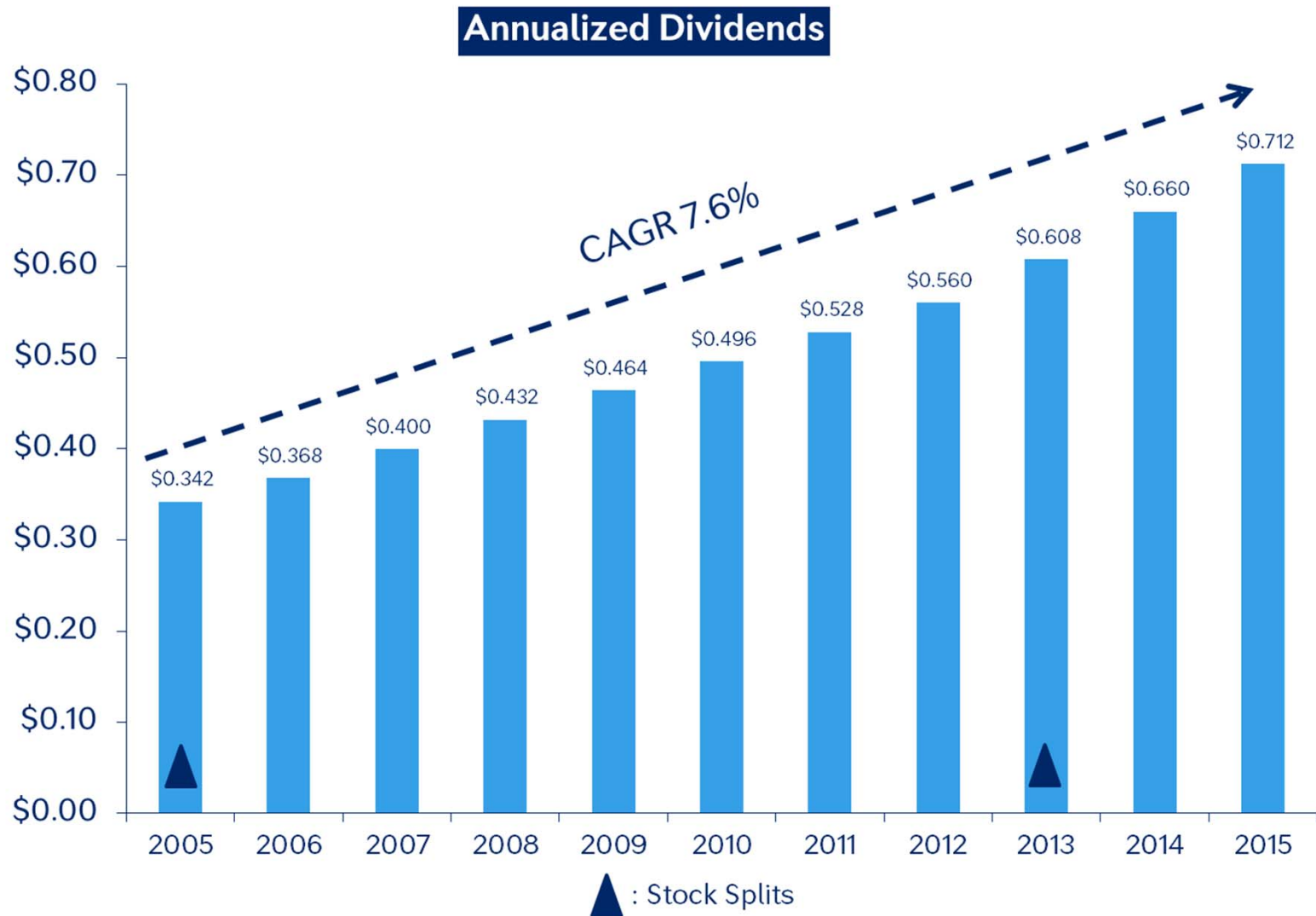
Growth in Income from Continuing Operations



Source: 2014 Aqua Annual Report and 2015 Guidance Range

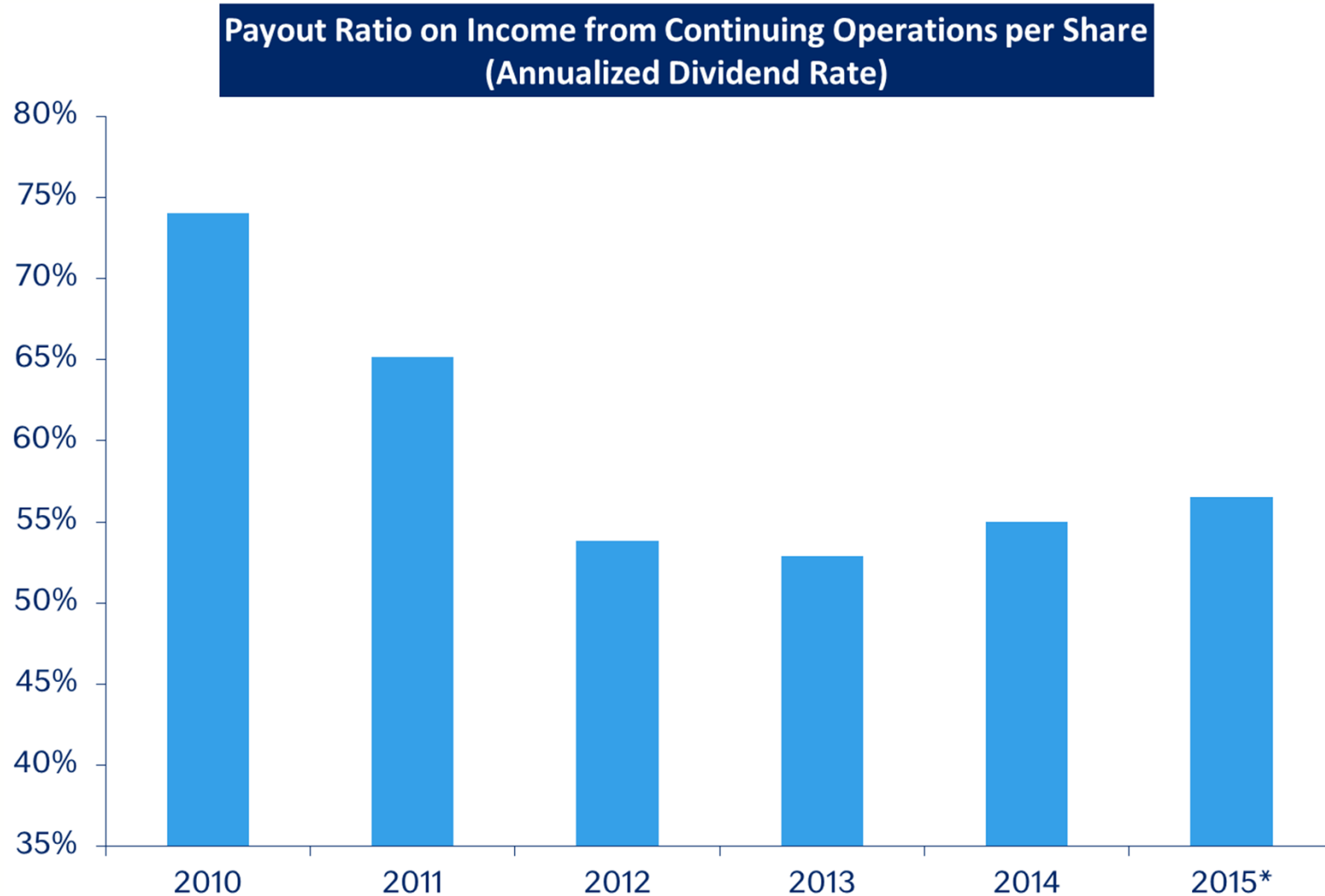
Dividend History

7.9% increase to annualized dividend rate of \$0.712 effective 9/1/2015



Source: Aqua Annual Reports

Change in Payout Ratio



Source: Aqua Annual Reports

*2015 based on mid-point range of EPS guidance at \$1.26

Financial Strength

- **Strong Balance Sheet**
 - A+ S&P Rating (Aqua PA)
 - Capital structure 50:50
- **Substantial Debt Capacity**
 - Room on balance sheet for growth
- **Plan to repurchase dilutive shares**
 - Shares used for acquisitions and/or employee equity awards

Regulatory Update

Kim Joyce

Director, Legislative and Public Affairs and Regulatory Counsel



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What is Our Regulatory Compact?

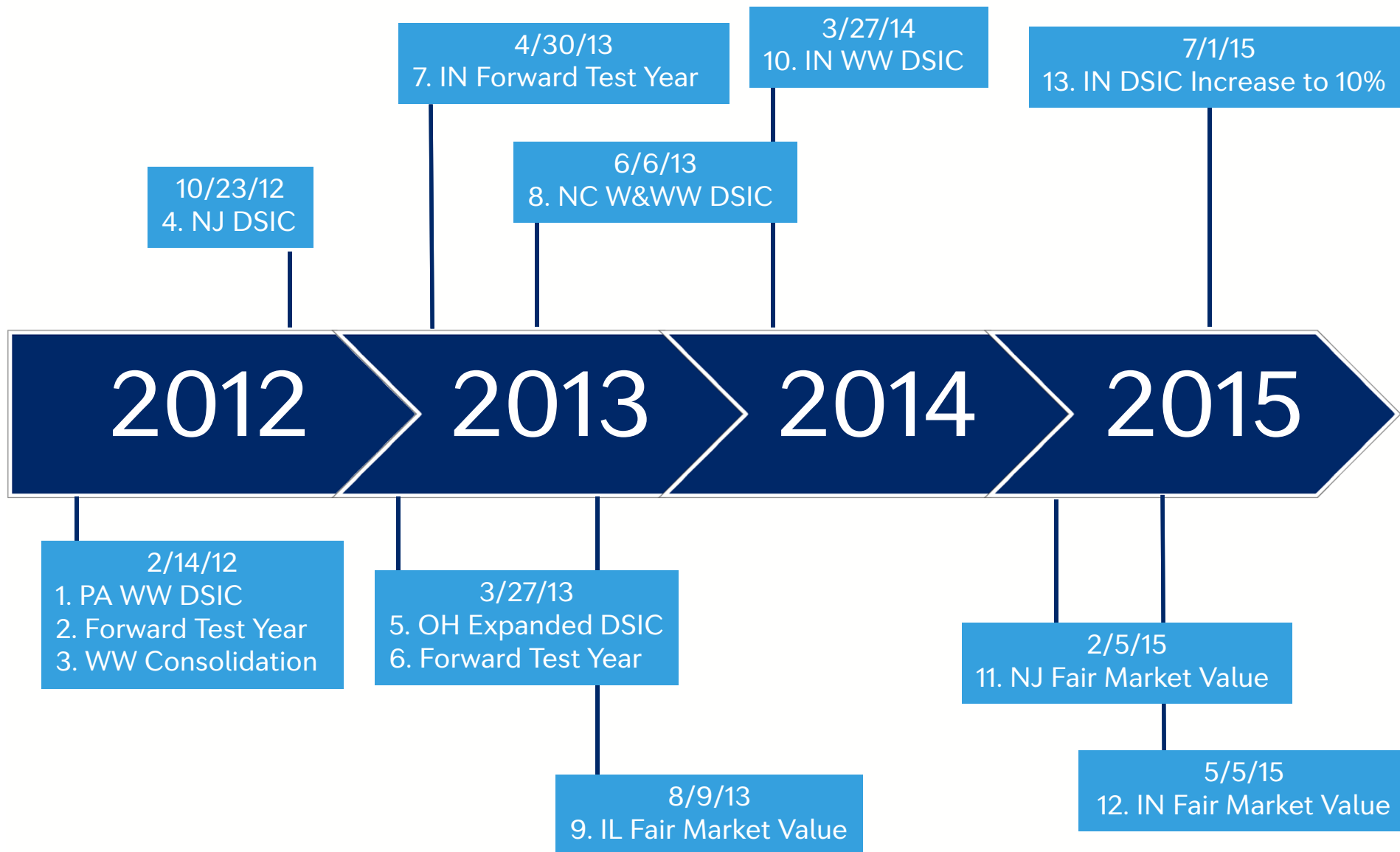


Successful Implementation of Consolidation Strategy

State	Rate Divisions
PA	4
VA	4
NC	5
OH	6
NJ	6
TX	7
IL	10
IN	11

- Economies of scale
- Facilitates growth
- Increased reliability
- Capital planning/management
- Technological expertise
- Rate consolidation smooths increases for customers over time

Emerging Water Regulatory Trends



States with Infrastructure Surcharges

State	Allowed Surcharge
OH	12.75% water 9% wastewater
IN	10%
PA	7.5% water 5% wastewater
NJ*	5%
IL	5%
NC	5%

* Water only

Infrastructure Improvement Trends



North Carolina

- Recognizes wastewater infrastructure
- Secondary water quality



Ohio

- Recognizes wastewater infrastructure
- Additional replacement beyond water distribution pipe
- Encourages more replacement over a longer period of time

Valuation Legislation



Illinois – appraisal value legislation
effective August 2013



Indiana – legislation to facilitate
acquisition of distressed utilities
effective May 2015



New Jersey – legislation to facilitate
acquisition of “troubled systems”
effective February 2015

Strategic Growth

Dan Schuller

Executive Vice President, Strategy and Corporate Development



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Strategy & Corporate Development

Our team functions as the strategic thought-partner
for the senior leadership team

Analysis-based

Growth-focused

Long-term Mindset

Process-oriented & Disciplined

Sustainability

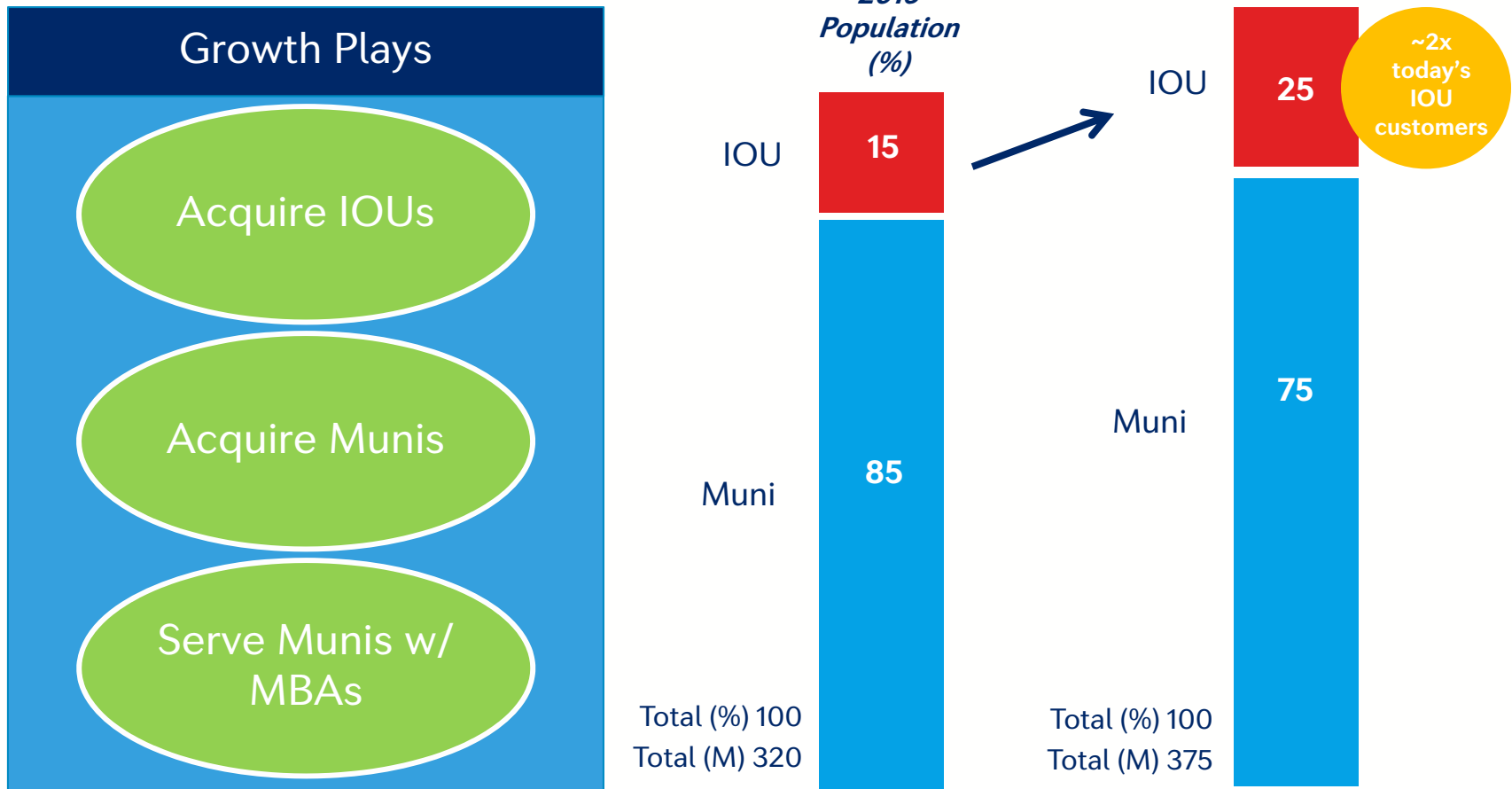
Rooted in Core Competencies

Fiduciary

Integrity

We have Significant Room to Grow

- We currently play in a small part of the market...but we can help change that.



Source: US Census

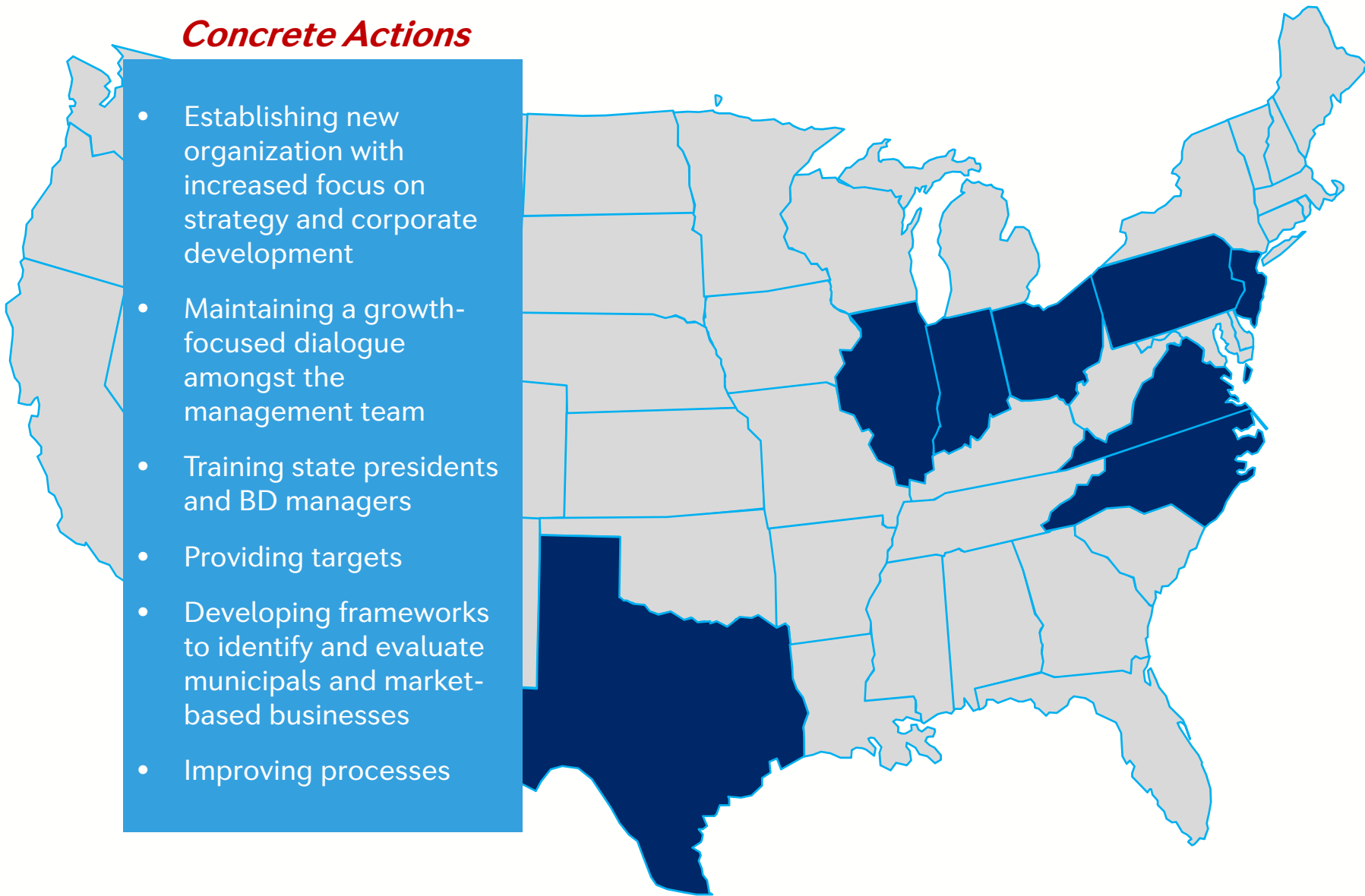
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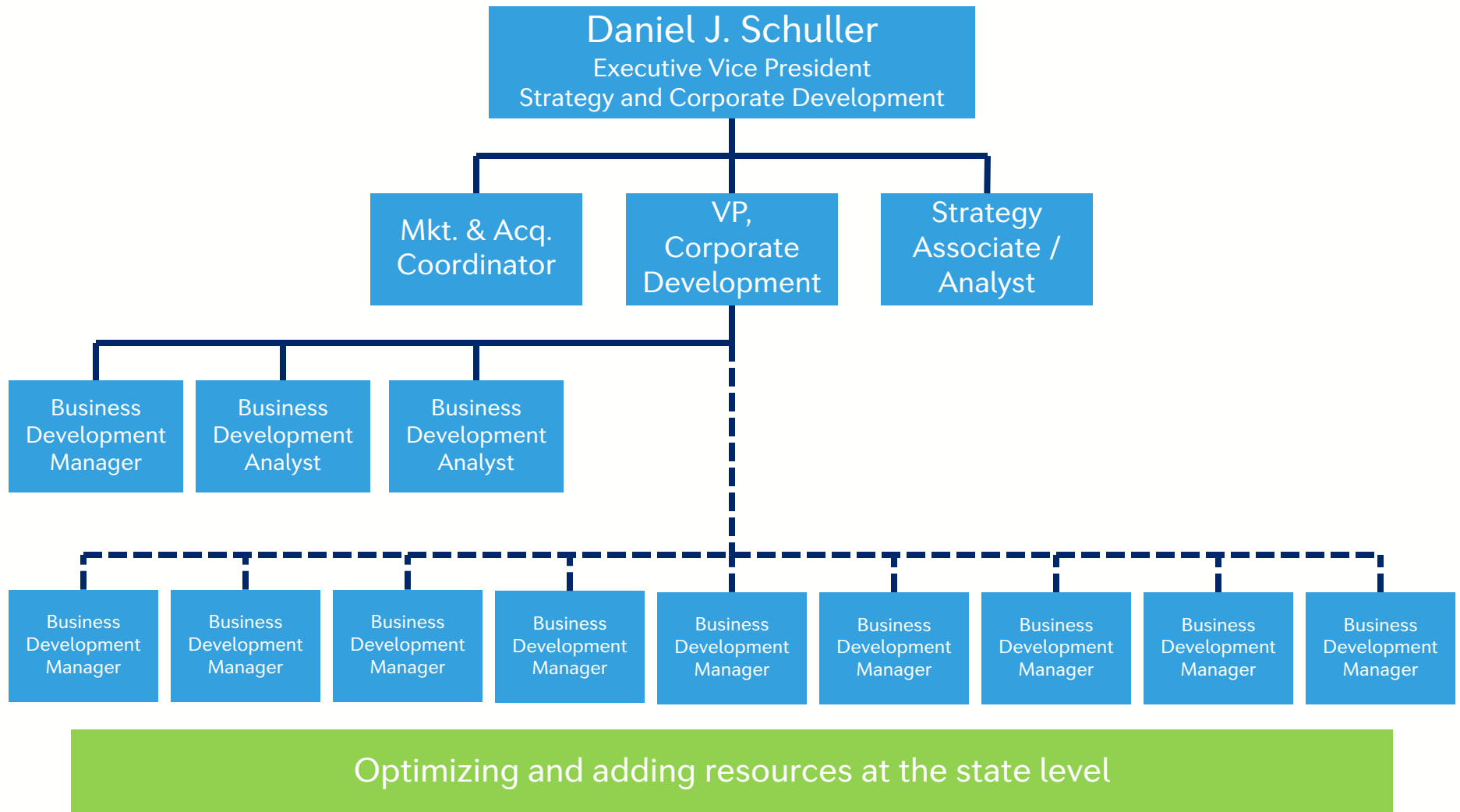
Refining Our Growth Focus

Concrete Actions

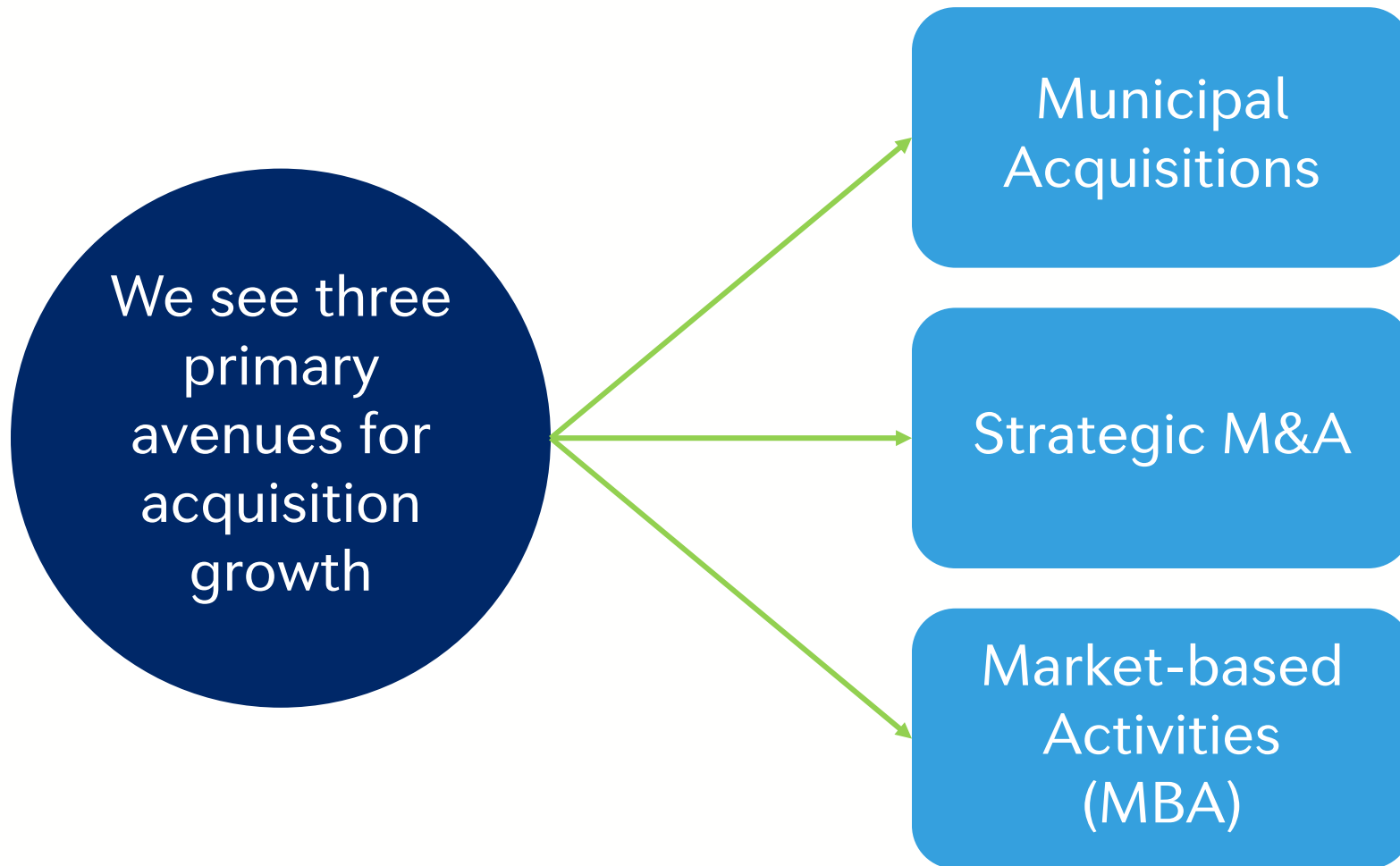
- Establishing new organization with increased focus on strategy and corporate development
- Maintaining a growth-focused dialogue amongst the management team
- Training state presidents and BD managers
- Providing targets
- Developing frameworks to identify and evaluate municipals and market-based businesses
- Improving processes



Strategy & Corporate Development Organization



Avenues for Acquisition Growth



Historical Acquisitions

While we have always been acquisitive, we are now focused on larger, municipal deals, and increasing our wastewater footprint

2000-2014

280 Total Acquisitions
19 Munis - 18,000 connections
261 IOUs - 404,000 connections

422,000 Total Connections
4% Munis
96% IOUs

96% Water Connections
4% Wastewater Connections

Shift
to
Muni
Focus

2015

16 Total Acquisitions
4 Munis – 7,900 connections
12 IOUs – 2,700 connections

10,621 Total Connections
74% Munis
26% IOUs

70% Water Connections
30% Wastewater Connections

1.1% customer growth
via acquisitions in 2015

Going forward, municipal systems will be the primary source of tuck-in, regulated system acquisitions

Municipal Acquisitions – Identification & Tracking

We are following a disciplined approach

Identification

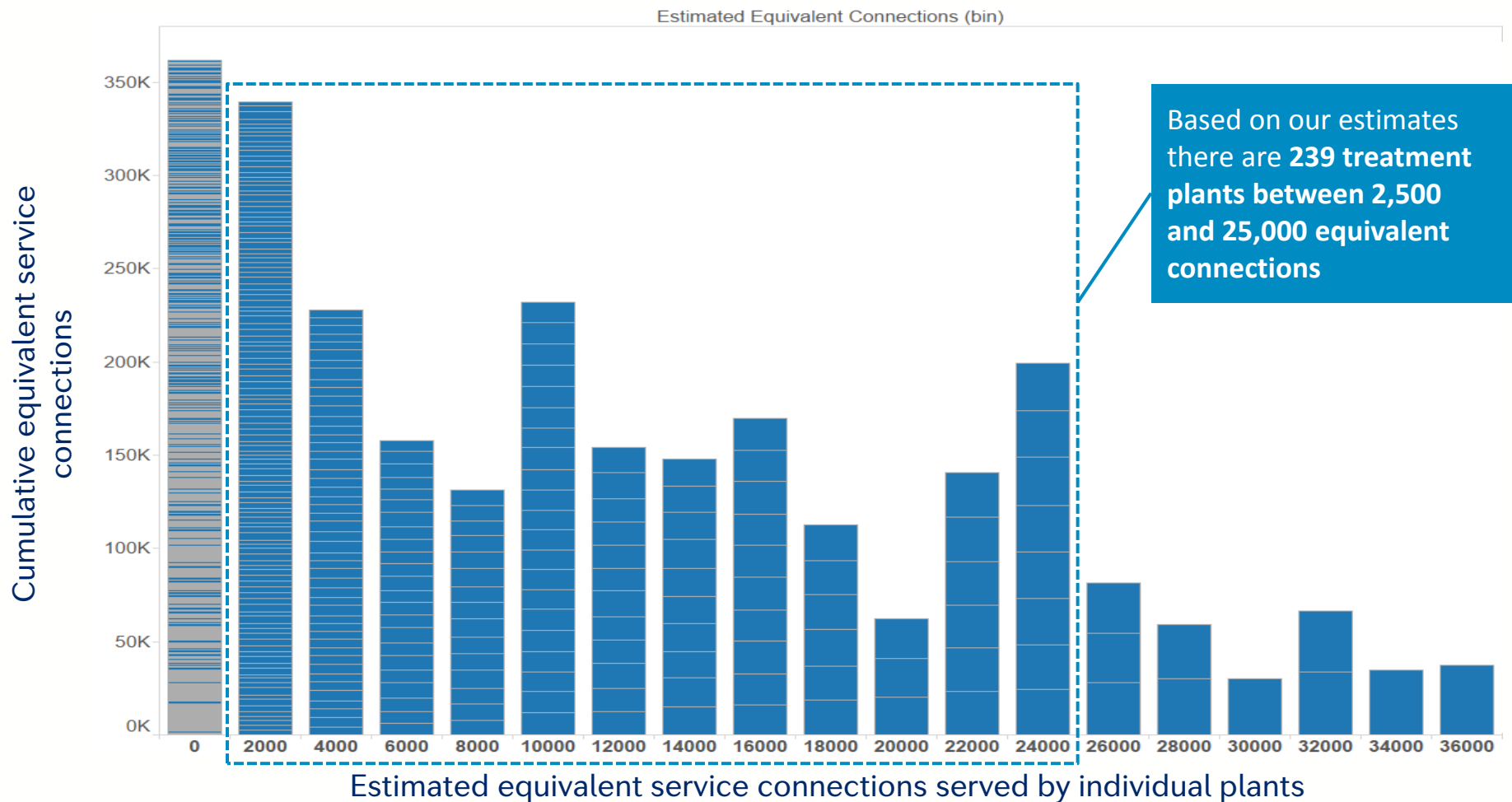
- Identify and prioritize leads based on:
 - System size
 - System compliance records
 - Other factors that indicate a willingness to sell
- Each state business development manager is focused on the top 20 water and top 20 wastewater targets in his state (i.e. 320 top leads; over 2 million connections)

Tracking

- Installed industry-leading CRM system early in 2015
- Progress of all leads is tracked
- Senior managers can see progress in real time
- Now, establishing sales metrics to ensure proper coverage and progress

Example: Wastewater Systems

- In this state, there are 1,026 wastewater treatment plants which are operated by municipalities



Corporate Development Investment Process



Deal team leadership/participation will vary depending on transaction type (i.e. muni, strategic M&A, or MBA)

Ensure Compliance with Investment Framework

Investment Committee (“I.C.”)

- Chris Franklin
 - Dave Smeltzer
 - Dan Schuller
 - Rick Fox
 - Chris Luning
 - Bill Ross (Engineering)
 - Stan Szczygiel (FP&A)
 - Bill Davis (Corp. Dev.)
- I.C. meets every two weeks
 - Board discussion following I.C. approval for larger regulated deals, all MBA deals

Current Market-based Activities

Assessment Methodology

- Current revenue and profitability
- Projected revenue and profitability
- Scalability
- Strategic fit
- Quality of management
- Potential risks



- Invest and grow
- Maintain
- Exit: sell or shut-down

Decisions by Segment

Segment		Outcome
Transportation Services	➡	Divest
Construction	➡	Harvest
Field Services	➡	Maintain; redeploy some staff
Cross-connection	➡	Reposition within Aqua
O&M	➡	Optimize how we manage each contract
Consulting/training	➡	Continue to assess
Home Services	➡	Maintain
Tri-State Grouting	➡	Invest and grow

Marcellus Shale Pipeline Joint Venture

Drilling Site



Ogontz Impoundment Site

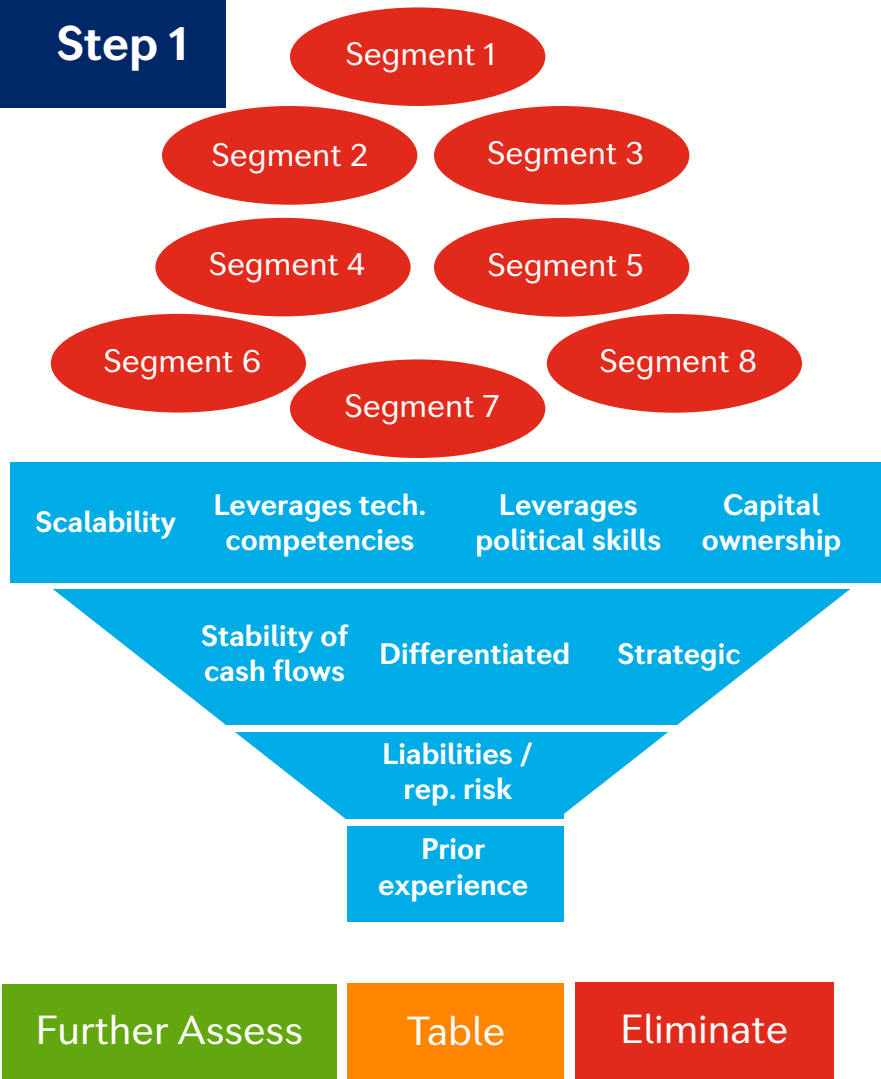


Source: SRBC

The value of the pipeline is under review

Assessment of Market-based Segments

Step 1



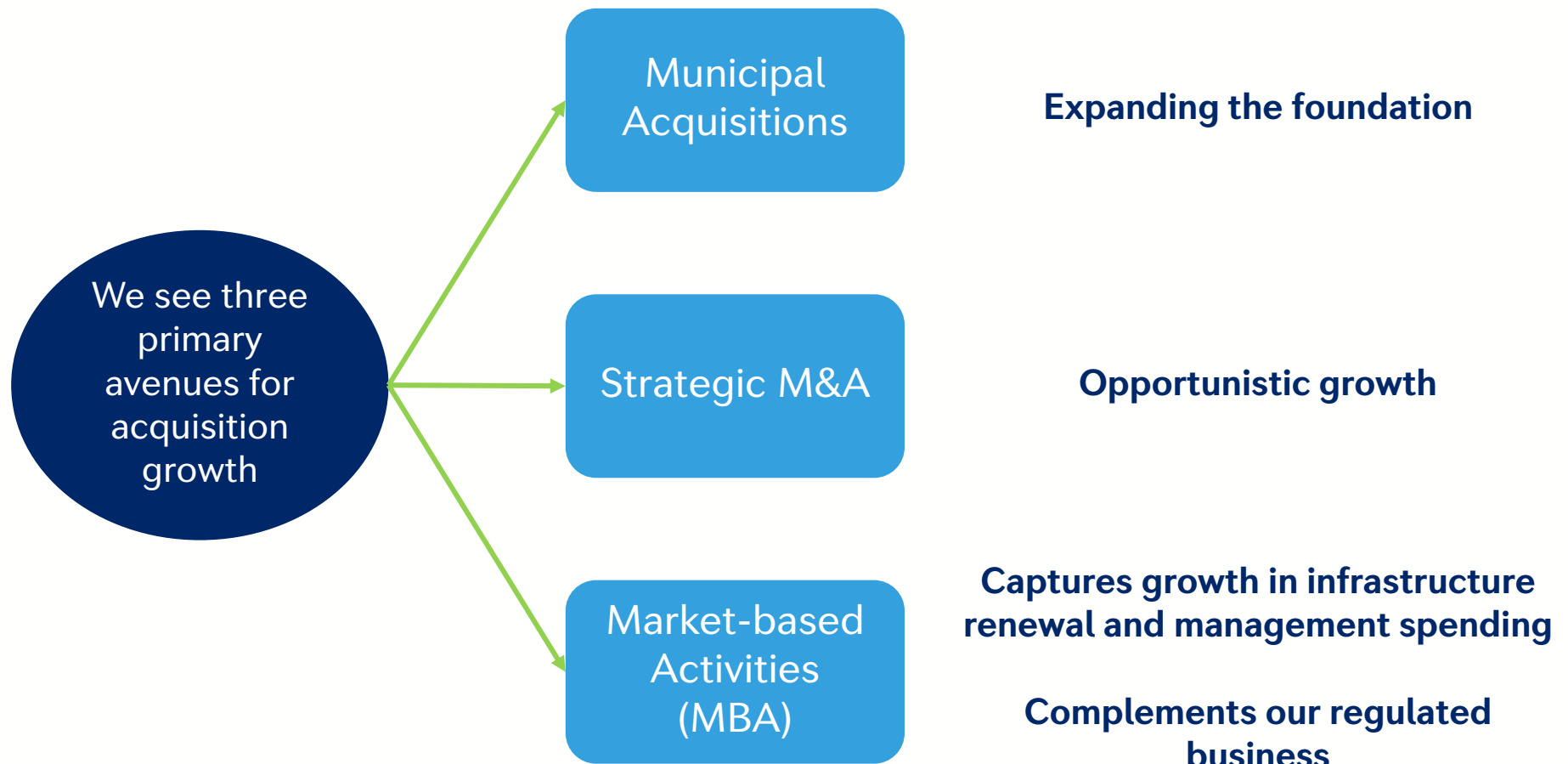
Step 2

Considering a number of infrastructure-related products and services, focusing on those that are complementary to our existing utility business

Quantitative Assessment

- Products / services - fundamentals and differentiators
- Selling process / business model
- Market and competitive landscape
- Customer segments and buying behaviors
- Margins
- Transaction multiples
- Target companies

Avenues for Acquisition Growth



Outlook and Summary

Christopher Franklin


President and Chief Executive Officer



AQUASM

NYSE: WTR

Today's Objectives

- 
- Senior Leadership Team Introduction
 - Company Overview
 - Growth Strategy
 - Transparency and Guidance

2016 Guidance

Earnings

- Full-year earnings per share between \$1.30 – \$1.35

Customer Growth

- 1.5 – 2.0% year-over-year customer growth

Capex

- More than \$350 million
- More than \$1.1 billion through 2018
- Ongoing rate base growth of approximately 6 – 7%

Operations and Maintenance Expense

- Same-system O&M increase of 1 – 2% for full year

Q&A Session



AQUASM

NYSE: WTR

Thank You for Attending Aqua America's 2016 Analyst Day

For more information contact:
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Chief of Staff
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Appendix



AQUASM

NYSE: WTR

Aqua's Board of Directors



Nicholas DeBenedictis

- Non-executive Chairman
- Director since 1992
- Committees:
 - Executive
 - Risk Mitigation



Christopher Franklin

- Director since 2015
- Committees:
 - Risk Mitigation



William Hankowsky

- Director since 2004
- Committees:
 - Executive
 - Audit
 - Corporate Governance



Richard Glanton

- Lead Independent Director
- Director since 1995
- Committees:
 - Executive
 - Risk Mitigation



Lon Greenberg

- Director since 2005
- Committees:
 - Executive
 - Audit
 - Executive Compensation



Ellen Ruff

- Director since 2006
- Committees:
 - Executive
 - Corporate Governance
 - Executive Compensation



Wendell Holland

- Director since 2011
- Committees:
 - Corporate Governance
 - Risk Mitigation



Michael Browne

- Director since 2013
- Committees:
 - Audit
 - Executive Compensation

2015 Acquisitions

System	Date Closed	Water Customers	Wastewater Customers	Total Customers
North Maine Utilities, IL	4/30/2015	4,716*	2,693*	7,409
Captain's Cove, VA	12/1/2015	977	280	1,257
Wintergreen, VA	7/1/2015	398	161	559
Mount Jewett, PA	5/6/2015	443*	-	443
Robin Hood, PA	10/15/2015	210	-	210
Union Hill, TX	9/2/2015	179	-	179
Venter Heights, VA	2/5/2015	136	-	136
Bunker Hill, PA	8/11/2015	66	67	133
Alamance County, NC	8/31/2015	111	-	111
Seaview Harbor, NJ	4/16/2015	94	-	94
Summerdale, IL	8/21/2015	57*	-	57
Mountain Ridge, NC	8/3/2015	33	-	33
Total		7,420	3,201	10,621

* Municipal System

- 12 water and 4 wastewater acquisitions
- 12 private and 4 municipal systems

2016 Acquisitions

as-of January 8, 2016

System	Date Closed	Water Customers	Wastewater Customers	Total Customers
Superior, PA	1/1/2016	3,868		3,868
Total		3,868		3,868

Rates and Infrastructure Surcharges Completed

as-of January 8, 2016

Rates or Surcharges Received in 2015			
State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
Illinois	15-0201	Surcharges (w/ww)	\$242
	14-0419	Rate Case	1,841
New Jersey	WR14010019 (semi-annual)	Surcharge (w)	1,815
North Carolina	W-218-Sub-363A	Surcharges (w/ww)	311
Ohio	Ordinance # 22-2013	Rate Case	730
	Ordinance # 14-041	Rate Case	587
	15-863-WW-SIC	Surcharges (w)	2,487
	15-864-WS-SIC	Surcharges (ww)	109
Pennsylvania ¹	P-2013-2366873	Surcharge (ww)	259
Texas ²	2012-1058-UCR	Rate Case	189
		Total	\$8,570

1. The Pennsylvania wastewater infrastructure surcharge is being billed subject to refund due to an appeal underway at Commonwealth Court
2. This is step three of a phased-in rate case docket

Rates and Surcharges differentiated by water (w) and wastewater (ww) systems

Rates and Infrastructure Surcharges Completed

as-of January 8, 2016

Rates or Surcharges Received in 2016			
State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
Illinois	N/A	Surcharge (w)	\$600
North Carolina	W-215-Sub-363A	Surcharges (w/ww)	606
Ohio	Ordinance # 22-2013	Rate Case	777
	Ordinance # 14-041	Rate Case	598
Virginia	PUE-2014-00045	Rate Case (w/ww)	1,489
		Total	\$4,070

Rates and Surcharges differentiated by water (w) and wastewater (ww) systems