

Chairman's Message

March 19, 2004

Dear Shareholder:

On Friday, January 16 we celebrated our name change to Aqua America, Inc. and our ticker symbol change to **WTR** by ringing The Closing Bell™ on the New York Stock Exchange. We also hosted a financial analyst day to coincide with the event. After more than 100 years of growth under our old name, it was time to have a name that better reflected our new national footprint and our position as the largest publicly-traded water utility based in the U.S. Overall, however, this change is simply new wrapping on the same strong management team that will use the same core strategy to position our company for continued growth at Aqua America.

The overriding theme for 2003 was growth as we added more than 20 percent to our customer base, primarily through the AquaSource acquisition, which closed on July 31, 2003. The AquaSource acquisition furthered our growth-through-acquisition strategy, supporting our goal of perpetuating the company's revenue and earnings growth. The acquisition also provided us with greater geographic and regulatory diversity with entry into several new states, including faster-growing southern states.

Last year, growth at Aqua America was not limited to the number of customers we served. Aqua America shareholders experienced a 34 percent stock price appreciation, and a 37 percent total return if their dividends were reinvested. Consistent with our long-term commitment to increasing shareholder value, on December 1, 2003 we effected our thirteenth dividend increase in 12 years. We raised our annual dividend 7.1 percent to an annual rate of \$0.48 per share (split-adjusted) to share the benefits of the company's increased earnings with our shareholders. We also completed a five-for-four stock split that was effected in the form of a 25 percent stock distribution in December.

Full year revenues grew 14.0 percent to \$367.2 million over 2002 revenue of \$322.0 million. This increase was driven by customer growth through acquisitions, as well as rate relief in several of the states where we operate. In addition to the AquaSource acquisition, we completed another 17 acquisitions and growth ventures in our various other operating locations. The more than 20 percent growth in 2003 could be viewed as the equivalent of five years of normal growth in a single year.

Additionally, we announced our agreement to acquire the water and wastewater operations of Heater Utilities, Inc. in North Carolina. We will add approximately 50,000 new customers with this acquisition and gain the enhanced status of being the largest investor-owned water utility in the fast-growing state of North Carolina. Pending regulatory approval, we expect this agreement to close in mid-2004.

While customer growth drove revenues to record levels, challenging weather in our primary service areas dampened our top line performance throughout the typically high-demand spring and summer months of 2003. Several of our locations experienced rainfall over twice the normal levels coupled with unseasonably cool temperatures. Though we were able to grow in spite of the unfavorable weather, we look forward to the return of more normal weather patterns in 2004 to enhance our top line performance.

For the full year 2003 we reported \$70.8 million in net income (\$0.79 per share), an increase of 5.4 percent over 2002 net income of \$67.2 million (\$0.78 per share). It is important to note for comparative purposes that 2002's fourth quarter and full year net income per share figures included a \$0.04 one-time gain from the sale of our Ashtabula County, Ohio water system.

Last year, Standard & Poor's affirmed the A+ credit rating on Aqua America's largest operating subsidiary Aqua Pennsylvania, indicating that the AquaSource acquisition improved our consolidated business profile. The recapitalization associated with the AquaSource acquisition included the issuance of \$135 million in unsecured long-term debt on July 31, 2003 at 4.87 percent and the sale of five million shares (split-adjusted) of common stock at \$18.72 (split-adjusted) through an offering completed on August 21, 2003.

