



NEWS

93 West Main Street, Clinton, CT 06413

**Connecticut Water Service, Inc. Reports
2013 and Fourth Quarter Earnings**
Earnings Total \$1.68 per Share in 2013, increase of more than 8%

Clinton, Connecticut, March 17, 2014 – Connecticut Water Service, Inc. (NASDAQ GS: CTWS) announced net income of \$18.3 million, or earnings per basic average share (EPS) of \$1.68, on total revenues of \$99.0 million. Total revenues include revenues generated by the Company's three business segments: Water Activities, Service and Rentals, and Real Estate. In 2012, the Company had net income of \$13.6 million, or \$1.55 EPS, on total revenues of \$92.6 million. The 2012 results included a \$0.11 EPS gain through an open space land sale.

Acquisition

On December 10, 2012, the Company acquired Biddeford & Saco Water Company (BSWC) through a stock-for-stock merger transaction valued at approximately \$12.0 million. BSWC serves about 15,000 customers, or 35,000 people, in four southern Maine communities. Only BSWC results of operations from the date of acquisition is included in 2012 income statement information. In January 2014, BSWC was merged into the Maine Water Company (MWC) and is now a division of Maine Water.

Regulatory Developments in 2013

In 2013, the State of Connecticut enacted laws that provide for a Water Revenue Adjustment (WRA), expansion of the Water Infrastructure and Conservation Adjustment (WICA) eligible projects and an increase in the WICA cap from 7.5% to 10%.

On August 30, 2013, the Connecticut Public Utilities Regulatory Authority (PURA) approved a Settlement Agreement (Agreement) filed by the Company on July 1, 2013. The Agreement was initiated by Connecticut Water to use the unique and unprecedented opportunity afforded by the WRA and WICA legislation and an IRS interpretation of its tangible property/repair regulations that will benefit customers and the Company alike. Connecticut Water's proposal was endorsed by the Connecticut Office of Consumer Counsel and the Attorney General, who also became parties to the Agreement.

The Agreement also allows for the implementation of the newly authorized WRA, which allows PURA-regulated water utilities to recover the difference between the actual revenues earned in a calendar year and PURA authorized revenues. Revenues earned in excess of what was allowed in the last rate case would be returned to customers through a credit on bills. The WRA removes the financial disincentive for water utilities to develop and implement effective water conservation programs.

In addition, an IRS interpretation of its tangible property/repair regulations allows taxpayers to take an immediate deduction for eligible costs that have previously been classified as capital expenditures. This allows for an immediate tax benefit that otherwise would have been received in small increments over many years. The tangible property regulations have provided Connecticut Water, which has made significant capital expenditures in recent years for its infrastructure replacement program, the opportunity to file for a refund of federal tax payments going back to the year 2010. See Footnote 2: Income Tax Expense in the Company's 10-K filed on March 17, 2014, for additional information.

The Company filed for that refund in September 2013, and approximately \$12.4 million will be returned to customers through a temporary two-year rate reduction beginning in April 2014, as provided for in the Agreement.

Other key provisions of the Agreement include:

- Water commodity and service charges billed to customers will be temporarily reduced for two years beginning on April 1, 2014.
- The Company will not implement new rates from a general rate case until October 2015 at the earliest.
- The WICA surcharge in effect on October 1, 2013, will be incorporated into base rates on April 1, 2014, and at that time the WICA surcharge will be reset to zero.
- The WICA filing that typically would have been filed by the Company in January 2014 has been delayed until July 2014 at the earliest.

In Maine, the Maine Public Utilities Commission (MPUC) has approved the first Water Infrastructure Charge (WISC), for one of Maine Water's systems. WISC is similar to Connecticut's WICA as it allows for eligible infrastructure investments to be recovered between rate cases.

According to Eric W. Thornburg, President and CEO of CTWS, the 2013 regulatory developments are positioning the Company for a strong 2014. Mr. Thornburg stated, "The recent expansion of WICA in Connecticut, and the first WISC filing in Maine are critical to our

customers and shareholders. Investing in infrastructure is an engine for growth. Replacing miles of aging, unreliable, or undersized pipe improves water quality and reliability for customers, employs local contractors, and allows us to earn a fair return on the capital that our shareholders have entrusted to us. We expect that infrastructure will lead to continued Net Income growth in the Water Activities Segment beyond 2013 levels.”

In 2013, the MPUC approved stipulations that settled rate case applications for five of Maine Water’s systems. One rate application is currently under review by the MPUC.

2013 Operating Results

In 2013, Net Income in the Company’s core business, the Water Activities segment, was \$16.8 million, on total revenues of \$93.0 million. In the same period of 2012, Net Income from the segment totaled \$11.3 million, on total revenues of \$85.3 million. The increase in revenues for the Water Activities segment was largely attributable to the acquisition of BSWC, implementation of the WRA in the third quarter, which contributed \$3.3 million to the revenue increase, and an increase in the WICA surcharge in Connecticut.

The Company saw consistent performance from its Services and Rentals segment in 2013, which contributed income of \$1.5 million compared to \$1.4 million in 2012. There was minimal activity in the Real Estate segment in 2013. In 2012, there was an open space land sale to the Town of Plymouth, Connecticut, that contributed income of approximately \$1.0 million.

Operating and Maintenance Expenses (O&M) increased approximately \$4.2 million, or approximately 10.5%, to \$44.6 million in 2013. Excluding \$3.2 million of incremental BSWC O&M, the Company’s O&M costs increased \$1.1 million, or 2.7%, in 2013. There were also increases in expenses related to municipal property taxes, payroll taxes, and depreciation associated with the acquisition of BSWC. There was a decrease in income taxes attributable to tangible property tax deduction.

Interest and debt expense, net of Allowance for Funds Used During Construction (AFUDC), declined 30% to \$5.8 million, from \$8.3 million for the same period of 2012. The decrease was related to reduced interest expense associated with the refinancing of \$55 million in long-term debt in the fourth quarter of 2012 and an additional \$15 million in the first quarter of 2013, the repayment of \$18 million in debt used to acquire Maine Water, and an increase in the patronage refund from a bank cooperative that reduced interest expense.

Fourth Quarter Operating Results

In the fourth quarter of 2013, Net Income in the Company's core business, the Water Activities segment, was \$1.6 million, on total revenues of \$22.0 million. In the same period of 2012, Net Income from the segment totaled \$1.2 million, on total revenues of \$19.8 million. The increase in revenues for the Water Activities segment was largely attributable to the implementation of the WRA in the third quarter, the acquisition of BSWC and an increase in WICA in Connecticut.

The Company saw a slight decrease in Net Income from the Services and Rentals segment in the fourth quarter of 2013, which contributed net income of \$340,000 compared to \$412,000 in the fourth quarter of 2012. There was minimal activity in the Real Estate segment during the fourth quarter of 2013.

Connecticut Water Service, Inc. is the largest publicly traded water company based in New England. Through its wholly-owned public water utility subsidiaries, The Connecticut Water Company and The Maine Water Company, the Company provides drinking water to 122,000 customers, or about 400,000 people, throughout the states of Connecticut and Maine.

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Special Note Regarding Forward-Looking Statements

Certain statements in this press release 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, as amended. Any statements contained in this press release that are not statements of historical fact, including statements based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on Connecticut Water Service, Inc., may be deemed to be forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, which 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.

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 environmental conditions, including those that result in water use restrictions, abnormal weather conditions; increases in energy and fuel costs; unfavorable changes to the federal and/or state tax codes; significant changes in, or unanticipated, capital requirements; significant 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, including the acquisition of The Maine Water Company in January 2012 and The Biddeford & Saco Water Company in December 2012; our ability to manage the expansion of our business; the extent to which we are able to develop and market new and improved services; the continued demand by telecommunication companies for antenna site leases on our property; 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 or the expansion of our operations; increases in the costs of goods and services; civil disturbance or terroristic threats or acts; changes in accounting pronouncements; and the outcome of the review of the Company's Connecticut state tax filings by the Connecticut Department of Revenue Services. Accordingly, the Company's actual results may differ materially from those contemplated by these forward-looking statements. Investors, therefore, are cautioned against relying on any of these forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. Additional information regarding the factors that may cause actual results to differ materially from these forward-looking statements is available in our filings with the Securities and Exchange Commission, including the risks and uncertainties identified in Part I, Item 1A - Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

These forward-looking statements speak only as of the date of this press release, and the Company does not assume any obligation to update or revise any forward-looking statement made in this press release or that may from time to time be made by or on behalf of the Company. Information may also be obtained from the Company Contact: Daniel J Meaney, APR, Director of Corporate Communications, 93 West Main Street, Clinton, CT 06413-1600, (860) 664-6016.

Connecticut Water Service, Inc. & Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

(In thousands except per share amounts)	December 31, 2013	December 31, 2012
Operating Revenues	\$91,481	\$83,838
Other Water Activities Revenues	1,519	1,487
Real Estate Revenues	95	1,450
Service and Rentals Revenues	5,862	5,786
Total Revenues	<u>\$98,957</u>	<u>\$92,561</u>
Total Operating Expenses	\$69,488	\$64,229
Other Utility Income, Net of Taxes	\$856	\$812
Total Utility Operating Income	\$22,849	\$20,421
(Loss) Gain on Property Transactions, Net of Taxes	\$(7)	\$951
Non-Water Sales Earnings (Services and Rentals), Net of Taxes	\$1,483	\$1,424
Net Income	\$18,269	\$13,640
Net Income Applicable to Common Shareholders	\$18,231	\$13,602
Basic Earnings Per Average Common Share	\$1.68	\$1.55
Diluted Earnings Per Average Common Share	\$1.66	\$1.53
Basic Weighted Average Common Shares Outstanding	10,827	8,763
Diluted Weighted Average Common Shares Outstanding	10,996	8,900
Book Value Per Share	\$17.91	\$16.94

Condensed Consolidated Balance Sheets (unaudited)

(In thousands)	December 31, 2013	December 31, 2012
ASSETS		
Net Utility Plant	\$471,876	\$447,911
Current Assets	46,896	36,362
Other Assets	112,039	94,702
Total Assets	<u>\$630,811</u>	<u>\$578,975</u>
CAPITALIZATION AND LIABILITIES		
Shareholders' Equity	\$197,753	\$185,349
Preferred Stock	772	772
Long-Term Debt	175,042	178,475
Current Liabilities	22,729	15,877
Other Liabilities and Deferred Credits	153,743	121,130
Contributions in Aid of Construction	80,772	77,372
Total Capitalization and Liabilities	<u>\$630,811</u>	<u>\$578,975</u>

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