

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999 Commission File number 1-6659
PHILADELPHIA SUBURBAN CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010-3489

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including
area code:

(610)-527-8000

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.
Philadelphia Stock Exchange Inc.

Securities registered pursuant to Section
12(g) of the Act: None

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 filing requirements
for the past 90 days.

Yes x No
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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 amendments to
this Form 10-K. []

The aggregate market value of the voting stock held by non-affiliates of the
registrant as of March 1, 2000.

\$612,903,346

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 March 1, 2000, 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 each of the registrant's classes of common
stock as of March 1, 2000.

40,997,701

Documents incorporated by reference

(1) Portions of registrant's 1999 Annual Report to Shareholders have
been incorporated by reference into Parts I and II of this Form 10-K
Report.

(2) Portions of the Proxy Statement, relative to the May 15, 2000

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 Report, have been incorporated by reference into Part III of this Form 10-K Report.

PART I

Item 1. Business

The Company

Philadelphia Suburban Corporation (referred to as "we" or "us") is the holding company for regulated utilities providing water or wastewater services to approximately 1.8 million people in Pennsylvania, Ohio, Illinois, New Jersey and Maine. Our two primary subsidiaries are Philadelphia Suburban Water Company, a regulated public utility that provides water or wastewater services to about 1 million residents in the suburban areas north and west of the City of Philadelphia, and Consumers Water Company, a holding company for several regulated public utility companies that provide water or wastewater service to about 800,000 residents in various communities in Pennsylvania, Ohio, Illinois, New Jersey and Maine. We are among the largest investor-owned water utilities in the United States based on the number of customers. In addition, we provide water service to approximately 25,000 people through operating and maintenance contracts with municipal authorities and other parties in proximity to the operating company's service territories.

Consumers Water Company owns 100% of the voting stock of four water companies, and at least 96% of the voting stock of three water companies, operating in Pennsylvania, Ohio, Illinois, New Jersey and Maine. Consumers Water Company's subsidiaries operate 27 divisions in these five states, providing water service to approximately 800,000 people. The following table indicates by subsidiary the number of metered water customers and water revenues for the year ended December 31, 1999:

Subsidiary	Water Revenues (000's)	Number of Water Customers
Philadelphia Suburban Water Company	\$150,659	317,843
Consumers Ohio water Company	33,061	78,306
Consumers Illinois Water Company	19,487	51,472
Consumers Pennsylvania Water Company*	20,587	40,951
Consumers New Jersey Water Company	13,790	33,400
Consumers Maine Water Company	8,432	15,703
	\$246,016	537,675

* Includes Susquehanna, Roaring Creek and Shenango Valley Divisions.

Subsidiaries of Philadelphia Suburban Water Company and Consumers Water Company provide wastewater collection, treatment and disposal services (primarily residential) to approximately 30,000 people in Pennsylvania, Illinois and New Jersey.

Item 1, Continued

The following table indicates by customer class the number of metered water customers and water revenues for the year ended December 31, 1999:

Customer class	Water Revenues (000's)	Number of Water Customers
Residential	\$154,881	497,937
Commercial	45,192	29,241
Industrial	13,944	1,430

Other	31,999	9,067
	-----	-----
	\$246,016	537,675
	=====	=====

Our customer base is primarily residential, representing approximately 93% of our total water sales. Substantially all of our customers are metered, which allows us to measure our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during the late spring and early summer. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption.

Excluding customers added through the acquisitions of several small water systems, during the three-year period of 1997 through 1999, Philadelphia Suburban Water Company's customer base grew at an annual compound rate of 1.0%. Including acquisitions, Philadelphia Suburban Water Company's customer base increased at an annual compound rate of 3.9% during this period. Consumers Water Company's customer growth rate during this period was 1.5%. Our business combination with Consumers Water Company on March 10, 1999 will enable us to grow through acquisitions in the areas where Consumers operates.

Acquisitions and Water Sale Agreements

We believe that there are many potential water system acquisition candidates throughout the United States because of the fragmented nature of the water utility industry. We believe the factors driving consolidation of these water systems are:

- o the benefits of economies of scale, including the development of technological expertise that would not be feasible in a smaller organization;
- o increasingly stringent environmental regulations; and
- o the need for investment.

We believe that acquisitions will continue to be an important source of growth for us. We intend to continue to pursue acquisitions of municipally-owned and investor-owned water systems of all sizes that provide services in areas adjacent to our existing service territories or in new service areas. We engage in continuing activities with respect to potential acquisitions, including performing analyses and investigations of acquisition candidates, making preliminary acquisition proposals and negotiating the terms of potential acquisitions.

Item 1, Continued

During the past five years, we have completed 54 acquisitions or other growth ventures adding approximately 60,000 customers to our customer base. The largest of these transactions was the acquisition of the water utility assets of Bensalem Township in December 1999, which has added 14,945 customers. We are actively exploring other opportunities to expand our utility operations through acquisitions or otherwise.

Water Supplies and Water Facilities

Our water utility operations obtain their water supplies from surface water sources such as reservoirs, lakes, ponds, rivers and streams, in addition to obtaining water from wells and purchasing water from other water suppliers. Less than 5% of our water sales are purchased from other suppliers. We believe that we have all of the necessary permits to obtain the water we distribute. Our supplies are sufficient for anticipated daily demand and normal peak demand under normal weather conditions. Our supplies by operating subsidiary are as follows:

- o Philadelphia Suburban Water Company - The principal supply of water is surface water from the Schuylkill River, Delaware River, eight rural streams which are tributaries of the Schuylkill and Delaware Rivers, and the Upper Merion Reservoir, a former quarry now impounding groundwater. Wells and

interconnections with adjacent municipal authorities supplement these surface supplies.

- o Consumers Ohio Water Company - Water supply is obtained for customers in Lake County from Lake Erie. Customers in Mahoning County obtain their water from man-made lakes and purchased water supplies the Ashtabula division. Water supply is obtained for customers in Stark and Summit Counties from wells.
- o Consumers Illinois Water Company - Water supply is obtained for customers in Kankakee County from the Kankakee River and satellite wells, while customers in Vermilion County are supplied from Lake Vermilion. In Will, Lee, Boone and Knox counties, our customers are served from deep well systems.
- o Consumers New Jersey Water Company - Water supply in our three non-contiguous divisions is obtained from wells.
- o Consumers Pennsylvania Water Companies - The Roaring Creek Division draws its water from a man-made lake within a 12,000 acre watershed and two wells also located in the watershed. The Susquehanna Division obtains its water supply from wells. The Shenango Division draws its water from the Shenango River.
- o Consumers Maine Water Company - Eleven non-contiguous water systems obtain their water supply as follows: five systems use groundwater, five systems use surface water and one system purchases water from a neighboring municipal district.

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. On a continuing basis, we make system improvements and additions to capacity in response to changing regulatory standards, changing patterns of consumption and increases in the number of customers. The various state public utility commissions have generally recognized the operating and capital costs associated with these improvements in setting water rates.

Item 1, Continued

In June 1999, the Pennsylvania Department of Environmental Protection declared a drought warning for most of the counties in Pennsylvania, including the counties served by Philadelphia Suburban Water Company and Consumers Water Company's Pennsylvania subsidiaries. A drought warning calls for voluntary restrictions on water use, particularly nonessential uses of water. In July 1999, the Governor of Pennsylvania issued a drought emergency order for the counties that were previously under the drought warning. The drought emergency imposed a mandatory ban on all nonessential water usage. On September 30, 1999, the drought emergency order was lifted for nearly all Pennsylvania counties, including those served by our water companies. While portions of Pennsylvania, particularly those dependent on ground water, experienced water shortages during this drought, our water supplies remained adequate. As a result of these actions, water consumption and water revenues in these areas declined to levels below those experienced in 1998. As a result of the drought emergency order being lifted, water revenues have begun to return to normal levels during the fourth quarter of 1999. In addition, Consumers Water Company's New Jersey subsidiary experienced a similar drought emergency during most of the third quarter of 1999.

On occasion, there have been other water use restrictions during the past three years, however, because these warnings were issued at times other than the summer months, when nonessential and recreational use of water has traditionally declined, the restrictions did not have a significant impact on operating revenues and we had sufficient quantities of raw water and maintained adequate storage levels of treated water.

Economic Regulation

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 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,

acquisitions of other utility systems, loans and the purchases or sales of property. 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. Accordingly, we maintain a rate case management capability to provide that the tariffs of our utility operations reflect, to the extent practicable, current costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. Rates for some divisions of our Ohio water utility can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utility Commission of Ohio. Currently, two of the four regulated divisions in Ohio are operating under such rate ordinances.

In 1996, the Pennsylvania Public Utility Commission ("PAPUC") approved the Distribution System Improvement Charge ("DSIC"). The DSIC is a mechanism that allows Pennsylvania water utilities to add a surcharge to their water bills. This surcharge offsets the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating distribution systems. Prior to the DSIC, water utilities absorbed 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 base rates is known as regulatory lag. The DSIC is intended to eliminate or reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems. The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. The DSIC may never exceed 5% of the base rates in effect. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective. The PAPUC also limits use of the DSIC to periods when a company's return on equity is less than a benchmark it establishes each quarter. We are currently working to establish DSIC mechanisms in the other states in which we operate.

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Item 1, Continued

In May 1999, the Illinois legislature passed a bill to establish a DSIC mechanism in Illinois. The Illinois Commerce Commission is analyzing the mechanism currently and considering approval of the DSIC for use by Illinois water utilities beginning in 2001.

In general, we believe that Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Consumers Water Company's subsidiaries have valid rights, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the territories 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 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. 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:

- o eminent domain;
- o the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- o 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. Generally, our strategy is to acquire additional water and wastewater systems, maintain our existing systems, and actively oppose 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.

Environmental Regulation

The primary federal and state laws affecting the provision of water and wastewater services are the Safe Drinking Water Act, the Clean Water Act, the Resource Conservation and Recovery Act and the regulations issued under these laws by the Environmental Protection Agency and state environmental regulatory agencies. In addition, we are subject to the federal and state laws affecting dam safety. These laws and regulations establish criteria and standards for drinking water and for discharges into the waters of the United States. The states have the right to establish criteria and standards that are stricter than those established by the Environmental Protection Agency. Some of the states where our subsidiaries operate have done so. Other federal and state environmental laws and regulations in addition to the Clean Water Act, the Safe Drinking Water Act and the dam safety regulations affect the operations of our subsidiaries.

In addition to the capital expenditures and costs currently anticipated, changes in environmental regulations, enforcement policies and practices or related matters may result in additional capital expenditures and costs. Capital expenditures and costs required as a result of water quality standards and environmental requirements generally have been recognized by state public utility commissions as appropriate for inclusion in establishing rates.

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Item 1, Continued

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the Environmental Protection Agency to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act set standards on the amount of certain inorganic and organic chemical contaminants, microorganisms and radionuclides allowable in drinking water. The 1996 Amendments to the Safe Drinking Water Act require the Environmental Protection Agency to analyze both the benefits and the costs of compliance when considering new or stricter water quality criteria and standards. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our operations or financial condition. We may, in the future, be required to change our method of treating drinking water at certain sources of supply if additional regulations become effective. The amended Safe Drinking Water Act also specifies that the Environmental Protection Agency shall study certain additional substances and propose rules that may change the standards by which treatment is required. A proposed rule was issued in 1999 and additional rulemakings will be proposed in 2000 and 2001. The cost of maintaining compliance with the new rulemakings is expected to be fully recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

The Safe Water Drinking Act of 1974 also addressed standards for nitrate, a regulated inorganic chemical used extensively in crop fertilization. In 1999, elevated levels of nitrate were observed in the Vermillion River, a water supply source for Consumers Illinois Water Company. Construction of a nitrate-removal facility began in 1999 and is expected to be completed by the end of 2000. The facility is estimated to cost approximately \$6.3 million, which includes past costs associated with the study of the problem. We expect that these capital expenditures will be fully recoverable in water rates.

The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium. The EPA is developing a final radionuclide rule, including a standard for uranium. No significant impact on our operations or financial condition is anticipated from the new rulemaking. However, as a result of revised testing procedures under the current regulation, additional treatment may be required to remove radium or to find alternate sources of water supply for a groundwater system in one of the divisions of Consumers New Jersey Water Company. The cost of the additional treatment processes and the cost of securing alternate sources of water supply will be fully recoverable in water rates.

In order to eliminate or inactivate microbial organisms, the Surface Water Treatment Rule and the Interim Enhanced Surface Water Treatment Rule were issued by the EPA to improve disinfection or filtration. The EPA developed the Disinfectants-Disinfection By-products Rule to reduce consumers' exposure to

disinfectants and by-products of the disinfection process. In December 1998, Stage 1 of these rules were issued by the EPA. Our large surface water systems are in compliance with these rulemakings as required by December 2001. Groundwater and smaller surface water systems have until December 2003 to comply with these rules. In December 1997, construction commenced on a \$35 million water treatment plant at one of Consumer's Pennsylvania operating companies in order to maintain compliance with the Surface Water Treatment Rule. The plant will replace an aged, lower-capacity facility and is expected to be completed in the second quarter of 2000. We may be required in the future to install filtration or treat groundwater at certain locations that could be reclassified as being influenced by surface water. These locations include certain small systems in Maine, New Jersey and Pennsylvania. If such requirements are implemented, the additional treatment processes would be required over a four year period and would cost approximately \$5 million. It is expected that these capital expenditures will be fully recoverable in water rates.

Additional rules dealing with water treatment and disinfection are anticipated during 2000, and are not expected to have a material impact on our results of operations or financial condition.

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Item 1, Continued

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. We currently maintain all required permits and approvals for the disposal of water and wastewater. Wastewater residuals and solids are disposed of in approved landfills, transferred to larger wastewater treatment facilities or applied to farmland. Additional capital expenditures and operating costs in connection with the management and disposal of discharges from our water and wastewater facilities may be required in the future, particularly if changes are made in the requirements of the applicable Federal or state laws. We believe that these capital expenditures would be fully recoverable in our rates.

The Resource Conservation and Recovery Act - The Resource Conservation and Recovery Act regulates the handling and disposal of residuals and solids from drinking water facilities. Water treatment residuals and solids are a combination of the chemicals used in the treatment process and the silt and other materials removed from the raw water. Water treatment residuals and solids are either disposed of in a storage facility, such as a lagoon or landfill, owned by a subsidiary, an off-site facility not owned by a subsidiary, or a state-approved landfill or municipal sewer system. We currently maintain all required permits for our water treatment facilities. Additional capital expenditures and operating costs in connection with the management and disposal of residuals and solids from our water facilities may be required in the future, particularly if changes are made in the requirements of the applicable Federal or state laws. We believe that these capital expenditures would be fully recoverable in our rates.

Dam Safety - Our subsidiaries own sixteen major dams that are subject to the requirements of the Federal and state regulations related to dam safety. All major dams undergo an annual engineering inspection. We believe that all sixteen dams are structurally sound and well-maintained.

Risk Management Plans (RMP's) - On June 20, 1996 the EPA promulgated Risk Management Program (RMP) regulations. This rulemaking requires facilities that use a regulated substance above a specified quantity to develop a formal RMP and to register and submit the plan to EPA. We have 15 RMP sites and all are in compliance with the above regulations. The cost to comply with these Rulemakings was \$8,000 to \$10,000 per facility.

Year 2000

We actively pursued a Year 2000 Program (the "Program"). The objective of the program was to provide reasonable assurance that our critical systems and processes that impact our ability to deliver water to our customers would not experience significant interruptions that would interfere with such water service or result in a material business impairment that would have an adverse impact on our operations, liquidity or financial condition as a result of the Year 2000 issue. For purposes of the Program, the Year 2000 issue was defined as whether information technology accurately processes date and time data from, into and between the twentieth and twenty-first centuries, and the years 1999

and 2000 and leap year calculations. To date, our water treatment plants and other mission critical systems have not been impacted by the Year 2000 issue, and there have been no water service interruptions as a result of a Year 2000 issue. We continue to monitor the Year 2000 issue but we do not anticipate that we will experience a material business impairment or have a material adverse impact on our operations, liquidity or financial condition as a result of the Year 2000 issue.

Employee Relations

As of December 31, 1999, we employed a total of 945 full-time persons. Our subsidiaries are parties to agreements with labor unions covering 487 employees. We consider our employee relations to be good.

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Item 2. Properties.

Our properties consist of transmission and distribution mains and conduits, water treatment plants, pumping facilities, wells, tanks, meters, supply lines, 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. Substantially all of our properties are owned by our subsidiaries and are subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For certain properties that we acquired through the exercise of the power of eminent domain and certain other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain approximately 7,100 miles of transmission and distribution mains, 20 water treatment plants and 9 wastewater treatment plants. Some properties are leased under long-term leases. The following table indicates our net utility plant as of December 31, 1999 by subsidiary:

Subsidiary -----	Net Property, Plant and Equipment (000's) -----
Philadelphia Suburban Water Company	\$ 698,682
Consumers Ohio Water Company	132,611
Consumers Illinois Water Company	104,428
Consumers Pennsylvania Water Company*	102,709
Consumers New Jersey Water Company	67,038
Consumers Maine Water Company	32,189
Inter-company eliminations and other	(2,293)

	\$1,135,364
	=====

*Includes Susquehanna, Roaring Creek and Shenango Valley Divisions.

We believe that our properties are maintained in good condition and in accordance with current standards of good waterworks industry practice. We believe that the facilities used in the operation of our business are in good condition in terms of suitability, adequacy and utilization.

Our corporate offices are leased from Philadelphia Suburban Water Company and 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 to which we or any of our subsidiaries is a party or to which any of our properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the

fourth quarter of 1999.

Information with respect to our executive officers is contained in Item 10 hereof and is hereby incorporated by reference herein.

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PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

Our common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 1, 2000, there were approximately 21,315 holders of record of our common stock.

The following selected quarterly financial data is in thousands of dollars, except for per share amounts:

	First	Second	Third	Fourth	Total Year
1999					
Operating revenues	\$58,597	\$66,165	\$69,527	\$63,037	\$257,326
Operations and maintenance expense	22,725	24,203	24,645	27,185	98,758
Net income available to common stock	316	12,033	14,332	9,594	36,275
Basic net income per common share	0.01	0.29	0.35	0.24	0.89
Diluted net income per common share	0.01	0.29	0.35	0.23	0.88
Dividends declared and paid per common share	0.17	0.17	0.18	0.18	0.70
Price range of common stock					
- high	29.75	25.75	25.31	24.19	29.75
- low	19.75	21.31	21.13	20.19	19.75
1998					
Operating revenues	\$57,933	\$61,740	\$68,991	\$62,107	\$250,771
Operations and maintenance expense	23,604	24,005	25,216	27,314	100,139
Net income available to common stock	7,852	14,577	13,787	8,604	44,820
Basic net income per common share	0.20	0.36	0.34	0.21	1.11
Diluted net income per common share	0.19	0.36	0.34	0.21	1.10
Dividend paid per common share	0.1625	0.1625	0.1700	0.1700	0.6650
Dividends declared per common share	-	0.1625	0.1700	0.1700	0.5025
Price range of common stock					
- high	25.75	22.56	28.19	30.06	30.06
- low	19.56	18.88	20.50	23.00	18.88

High and low prices of our common stock are as reported on the New York Stock Exchange Composite Tape.

Dividends paid and declared per common share represents Philadelphia Suburban Corporation's historical dividends. The cash dividend paid in March 1998 of \$0.1625 was declared in December 1997.

Net income available to common stock and net income per common share for the first quarter of 1999 includes net charges of \$6,134,000 (\$6,334,000 pre-tax), or \$0.15 per share, for the Consumers Water Company merger transaction costs and a charge for related restructuring costs of \$2,462,000 (\$3,787,000 pre-tax), or \$0.06 per share.

Net income available to common stock and net income per common share for the second quarter of 1998 includes a net gain of \$3,903,000 (\$6,680,000 pre-tax), or \$0.10 per share, on the sale of the Consumers Water Company's New Hampshire operations pursuant to the State's condemnation statute.

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Item 5, Continued

We have paid common dividends consecutively for 55 years. In 1999, our Board of Directors authorized an increase of 5.9% in the dividend rate over the amount Philadelphia Suburban Corporation has historically paid. As a result of this authorization, beginning with the dividend payment in September, the annual dividend rate increased to \$0.72 per share. 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, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the pooling, our common dividends paid have

averaged 76.2% of income from continuing operations.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 1999 Annual Report to Shareholders filed as Exhibit 13.7 to this Form 10-K Report 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" from the portions of our 1999 Annual Report to Shareholders filed as Exhibit 13.7 to this Form 10-K Report is incorporated by reference herein.

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. The information appearing in the Long-term Debt and Loans Payable footnote and the Fair Value of Financial Instruments footnote of the section captioned "Notes to Consolidated Financial Statements" from our 1999 Annual Report to Shareholders filed as Exhibit 13.7 to this Form 10-K Report is incorporated by reference herein. 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 that we own. As of December 31, 1999, our carrying value of marketable equity securities was \$10,590,983.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income and Comprehensive Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" "Consolidated Statements of Capitalization" and "Notes to Consolidated Financial Statements" from the portions of our 1999 Annual Report to Shareholders filed as Exhibit 13.7 to this Form 10-K Report is incorporated by reference herein. Also, the information appearing in the section captioned "Reports on Financial Statements" from the portions of our 1999 Annual Report to Shareholders filed as Exhibit 13.7 to this Form 10-K Report is incorporated by reference herein.

Item 9. Disagreements on Accounting and Financial Disclosure

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the section captioned "Information Regarding Nominees and Directors" of the Proxy Statement relating to our May 15, 2000, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Executive Officers of the Registrant

The following table and the notes thereto set forth information with respect to the executive officers of the Registrant, including their names, ages, positions with the Registrant and business experience during the last five years:

Position with the Registrant

Name ----	Age ---	and date of election (1) -----
Nicholas DeBenedictis	54	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Philadelphia Suburban Water Company (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Morrison Coulter	63	President, Philadelphia Suburban Water Company (January 1999 to present); Senior Vice President - Production, Philadelphia Suburban Water Company (February 1996 to January 1999); Vice President - Production, Philadelphia Suburban Water Company (April 1989 to February 1996) (3)
Richard R. Riegler	53	Senior Vice President - Engineering and Environmental Affairs (January 1999 to present); Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to January 1999) (4)
Roy H. Stahl	47	Senior Vice President and General Counsel (April 1991 to present) (5)
David P. Smeltzer	41	Senior Vice President - Finance and Chief Financial Officer (December 1999 to present); 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) (6)

- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Registrant. 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. Coulter was Superintendent of Pumping Facilities from 1971 to 1982. From 1982 to 1987 he served as Manager - Electrical/Mechanical Department and from 1987 to 1989 he was Assistant Vice President - Production.

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Item 10, Continued

- (4) Mr. Riegler was Chief Engineer of Philadelphia Suburban Water Company from 1982 to 1984. He then served as Vice President and Chief Engineer from 1984 to 1986 and Vice President of Operations from 1986 to 1989.
- (5) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President - Administration and Corporate Counsel of the Registrant, and from May 1988 to April 1991 he was Vice President and General Counsel of the Registrant.
- (6) Mr. Smeltzer was Vice President - Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.

Item 11. Executive Compensation

The information appearing in the sections captioned "Executive Compensation" of the Proxy Statement relating to our May 15, 2000, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Ownership of Common Stock" of the Proxy Statement relating to our May 15, 2000, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Certain Relationships and Related Transactions" of the Proxy Statement relating to our May 15, 2000, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

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PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

Financial Statements. The following is a list of our consolidated financial statements and its subsidiaries and supplementary data incorporated by reference in Item 8 hereof:

Management's Report

Independent Auditors' Report

Consolidated Balance Sheets - December 31, 1999 and 1998

Consolidated Statements of Income and Comprehensive Income -
1999, 1998 and 1997

Consolidated Cash Flow Statements - 1999, 1998, and 1997

Consolidated Statements of Capitalization - December 31, 1999 and 1998

Notes to Consolidated Financial Statements

Financial Statement Schedules. The financial statement schedules, or supplemental schedules, filed as part of this annual report on Form 10-K 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.

Reports on Form 8-K.

Current Report on Form 8-K filed on November 19, 1999, responding to Item 5, Other Events. (Consolidated financial statements of Philadelphia Suburban Corporation as of December 31, 1998 and 1997 and for each of the years in the three-year period ended December 31, 1998, which have been restated to reflect the recent business combination with Consumers Water Company accounted for under the pooling-of-interests method of accounting, the notes thereto and the independent auditors' report of KPMG LLP).

Exhibits, Including Those Incorporated by Reference. The following is a list of exhibits filed as part of this annual report on Form 10-K. 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. The page numbers listed refer to page numbers where such exhibits are located using the sequential numbering system specified by Rules 0-3 and 403.

EXHIBIT INDEX

Exhibit No.		Page No.
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	-
3.2	By-Laws, as amended (17) (Exhibit 3.2)	-
3.3	Amendment to Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares to 41,770,819 and to provide that 40,000,000 of such shares be shares of Common Stock (17) (Exhibit 3.3)	-
3.4	Amendment to Amended and Restated Articles of Incorporation, as amended, designating the Series B Preferred Stock (17) (Exhibit 3.4)	-
3.5	Amendment to Section 3.03 and addition of Section 3.17 to Bylaws (19) (Exhibits 1 and 2)	-
3.6	Amendment to Amended and Restated Articles of Incorporation, designating the terms of the Series A Junior Participating Preferred Shares (21) (Exhibit 3.6)	-

3.7	Amendment to Amended and Restated Articles of Incorporation, to increase the number of authorized shares to 101,770,819 and to provide that 100,000,000 of such shares be shares of Common Stock (23) (Annex E)	-
3.8	Amendment to Section 3.03 of the Bylaws	24
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)	-
4.2	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank (East) National Association dated as of February 16, 1990 (3) (Exhibit 4.3)	-
4.3	First Amendment to Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank N.A. dated as of September 1, 1992 (1) (Exhibit 4.3)	-
4.4	Preferred Stock Agreement between Philadelphia Suburban Water Company and Provident Life and Accident Insurance Company dated as of January 1, 1991 (3) (Exhibit 4.4)	-
4.5	Indenture dated as of July 1, 1988 between Philadelphia Suburban Corporation and the Philadelphia National Bank, as Trustee. (4) (Exhibit 4)	-
4.6	Form of Rights Agreement, dated as of February 19, 1988, between Philadelphia Suburban Corporation and Mellon Bank (East) National Association, as amended by Amendment No. 1. (5) (Exhibit 1)	-
4.7	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)	-
4.8	Twenty-first Supplemental Indenture dated as of August 1, 1985 (6) (Exhibit 4.2)	-

EXHIBIT INDEX, Continued

Exhibit No. -----		Page No. -----
4.9	Twenty-second Supplemental Indenture dated as of April 1, 1986 (7) (Exhibit 4.3)	-
4.10	Twenty-third Supplemental Indenture dated as of April 1, 1987 (8) (Exhibit 4.4)	-
4.11	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (9) (Exhibit 4.5)	-
4.12	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (10) (Exhibit 4.6)	-
4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	-
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	-
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (12) (Exhibit 4.15)	-
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A. and CoreStates Bank, N.A. dated as of March 17, 1994 (12) (Exhibit 4.16)	-
4.17	Twenty-Ninth Supplemental Indenture dated as of March 30, 1995 (14) (Exhibit 4.17)	-
4.18	Thirtieth Supplemental Indenture dated as of August 15, 1995 (15) (Exhibit 4.18)	-
4.19	First Amendment to Revolving Credit Agreement dated as of May 22, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A., Meridian Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.19)	-

4.20	Second Amendment to Revolving Credit Agreement dated as of July 21, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A., Meridian Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.20)	-
4.21	Third Amendment to Revolving Credit Agreement dated as of December 20, 1996, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A., CoreStates Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.21)	-
4.22	Thirty-First Supplemental Indenture dated as of July 1, 1997 (18) (Exhibit 4.22)	-
4.23	Fourth Amendment to Revolving Credit Agreement dated as of January 15, 1998, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A., and CoreStates Bank, N.A. dated as of March 17, 1994 (21) (Exhibit 4.23)	-
4.24	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (20) (Exhibit 1)	-

EXHIBIT INDEX, Continued

Exhibit No. -----		Page No. -----
4.25	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and BankBoston, N.A., as Rights Agent (24) (Exhibit 4.25)	-
4.26	Thirty-second Supplement Indenture, dated as of October 1, 1999 (25) (Exhibit 4.26)	-
4.27	Thirty-third Supplemental Indenture, dated as of December xx, 1999.	25
4.28	Revolving Credit Agreement between Philadelphia Suburban Water Company and PNC Bank National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999.	66
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	-
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	-
10.3	Executive Incentive Award Plan, as amended March 21, 1989 and February 6, 1990* (10) (Exhibit 10.3)	-
10.4	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (10) (Exhibit 10.4)	-
10.5	Supplemental Executive Retirement Plan, effective December 1, 1989* (10) (Exhibit 10.5)	-
10.6	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)	-
10.7	1993 Incentive Compensation Plan* (1) (Exhibit 10.7)	-
10.8	Employment letter agreement with Mr. Nicholas DeBenedictis* (1) (Exhibit 10.8)	-
10.9	1994 Incentive Compensation Program* (12) (Exhibit 10.9)	-
10.10	1994 Equity Compensation Plan, as amended by Amendment 1994-1* (16) (Exhibit 10.10)	-

10.11	1995 Incentive Compensation Plan* (13) (Exhibit 10.11)	-
10.12	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (14) (Exhibit 10.12)	-
10.13	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (15) (Exhibit 10.13)	-
10.14	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (15) (Exhibit 10.14)	-
10.15	1996 Annual Cash Incentive Compensation Plan* (16) (Exhibit 13.4)	-
10.16	Amendment 1994-2 to 1994 Equity Compensation Plan, as amended* (17) (Exhibit 10.16)	-
10.17	1997 Annual Cash Incentive Compensation Plan* (17) (Exhibit 10.17)	-
10.18	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997* (17) (Exhibit 10.18)	-

EXHIBIT INDEX, Continued

Exhibit No. -----		Page No. -----
10.19	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (17) (Exhibit 10.19)	-
10.20	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Michael P. Graham, dated as of January 1, 1997* (17) (Exhibit 10.20)	-
10.21	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (17) (Exhibit 10.21)	-
10.22	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (17) (Exhibit 10.22)	-
10.23	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (17) (Exhibit 10.23)	-
10.24	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (17) (Exhibit 10.24)	-
10.25	First Amendment to Supplemental Executive Retirement Plan* (17) (Exhibit 10.25)	-
10.26	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSBC Securities, Inc., and PaineWebber Incorporated (18) (Exhibit 10.26)	-
10.27	1998 Annual Cash Incentive Compensation Plan* (21) (Exhibit 10.27)	-
10.28	Philadelphia Suburban Corporation Director Deferral Plan* (24) (Exhibit 10.28)	-
10.29	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997* (24) (Exhibit 10.29)	-

10.30	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (24) (Exhibit 10.30)	-
10.31	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Michael P. Graham, dated as of January 1, 1997* (24) (Exhibit 10.31)	-
10.32	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (24) (Exhibit 10.32)	-
10.33	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (24) (Exhibit 10.33)	-

EXHIBIT INDEX, Continued

Exhibit No. -----		Page No. -----
10.34	1999 Annual Cash Incentive Compensation Plan* (24) (Exhibit 10.34)	-
10.35	The Philadelphia Suburban Corporation 1994 Equity Compensation Plan (as Amended and Restated Effective March 3, 1998)* (22) (Exhibit A)	-
10.36	Amendment 1998-1 to The Philadelphia Suburban Corporation 1994 Equity Compensation Plan* (23) (Annex F)	-
10.37	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999 (25) (Exhibit 10.37)	-
10.38	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999	-
10.39	2000 Annual Cash Incentive Compensation Plan *	153
10.40	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and David P. Smeltzer dated December 1, 1999.	159
10.41	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	176
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 1993 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993 (12) (Exhibit 13.1)	-
13.2	Selected portions of Annual Report to Shareholders for the year ended December 31, 1994 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1994 (13) (Exhibit 13.2)	-
13.3	Selected portions of Annual Report to Shareholders for the year ended December 31, 1995 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1995 (16) (Exhibit 13.3)	-
13.4	Selected portions of Annual Report to Shareholders for the year ended December 31, 1996 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1996 (17) (Exhibit 13.4)	-

13.5 Selected portions of Annual Report to Shareholders for the year ended December 31, 1997 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1997 (21) (Exhibit 13.5)

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EXHIBIT INDEX, Continued

Exhibit No. -----		Page No. -----
13.6	Selected portions of Annual Report to Shareholders for the year ended December 31, 1998 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1998 (24) (Exhibit 13.6)	-
13.7	Selected portions of Annual Report to Shareholders for the year ended December 31, 1999 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1999	261
21.	Subsidiaries of Philadelphia Suburban Corporation	302
23.	Consent of Independent Accountants	303
24.	Power of Attorney (set forth as a part of this report)	22
27.	Financial Data Schedule	304

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- 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, 1990.
- (4) Filed as Exhibit 4 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on June 14, 1988.
- (5) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1988, with respect to the New York Stock Exchange, and on November 9, 1988, with respect to the Philadelphia Stock Exchange.
- (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.
- (8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.
- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (12) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.

- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1994.
- (14) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (16) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1995.
- (17) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (18) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (19) Filed as an Exhibit to Form 8-K filed August 7, 1997.
- (20) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed on March 17, 1998.
- (21) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1997.
- (22) Filed as Exhibit A to definitive Proxy Statement dated April 7, 1998.
- (23) Filed as an Annex to Registration Statement on Form S-4 filed on September 11, 1998.
- (24) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998.
- (25) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

* Indicates management contract or compensatory plan or arrangement.

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.

PHILADELPHIA SUBURBAN CORPORATION

By /s/ Nicholas DeBenedictis

 Nicholas DeBenedictis
 President and Chairman

Date: March 28, 2000

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Each person in so signing also makes, constitutes and appoints Nicholas DeBenedictis, President and Chairman of Philadelphia Suburban Corporation, David P. Smeltzer, Senior Vice President - Finance and Chief Financial Officer of Philadelphia Suburban Corporation, and each of them, his or her true and lawful attorneys-in-fact, in his or her name, place and stead to execute and cause to be filed with the Securities and Exchange Commission any and all amendments to this report.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
President and Chairman
(principal executive officer)
and Director

/s/ David P. Smeltzer

David P. Smeltzer
Senior Vice President - Finance and
Chief Financial Officer

/s/ Michel Avenas

Michel Avenas
Director

Mary C. Carroll
Director

/s/ G. Fred DiBona, Jr.

G. Fred DiBona, Jr.
Director

Richard H. Glanton
Director

/s/ Alan Hirsig

Alan Hirsig
Director

/s/ John E. Menario

John E. Menario
Director

/s/ John F. McCaughan

John F. McCaughan
Director

/s/ John E. Palmer

John E. Palmer
Director

/s/ Richard L. Smoot

Richard L. Smoot
Director

/s/ Robert O. Viets

Robert O. Viets
Director

Harvey J. Wilson
Director

Exhibit 3.8

Section 3.03 of the Company's Bylaws is hereby replaced in its entirety with the following:

Section 3.03. Special Meeting. Special meetings of the shareholders may be called at any time by the chairman, the president, or shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast at the particular meeting, or by resolution of the board of directors. Any authorized person who has called a special meeting may fix the date, time and place of the meeting. If the person who has called the meeting does not fix the date, time or place of the meeting, it shall be the duty of the secretary to do so. A date fixed by the secretary shall not be more than 60 days after receipt of the request.

THIRTY-THIRD SUPPLEMENTAL

INDENTURE

DATED AS OF NOVEMBER 15, 1999

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

PHILADELPHIA SUBURBAN WATER COMPANY

TO

CHASE MANHATTAN TRUST COMPANY, NATIONAL ASSOCIATION, as Trustee

\$300,000,000 FIRST MORTGAGE BONDS,
1999 MEDIUM TERM NOTE SERIES

THIRTY-THIRD SUPPLEMENTAL INDENTURE dated as of the 15th day of November, 1999, by and between PHILADELPHIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company"), party of the first part, and CHASE MANHATTAN TRUST COMPANY, NATIONAL ASSOCIATION, a national banking association (the "Trustee"), party of the second part.

WHEREAS, the 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 Company conveyed and mortgaged to the 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, on March 29, 1947, concurrently with a merger of Germantown Trust Company into The Pennsylvania Company for Insurances on Lives and Granting Annuities, the name of the surviving corporation was changed to The Pennsylvania Company for Banking and Trusts, on September 30, 1955, concurrently with a merger of The First National Bank of Philadelphia into The Pennsylvania Company for Banking and Trusts, the name of the surviving corporation was

changed to The First Pennsylvania Banking and Trust Company, and on June 3, 1974, by amendment to its Articles of Association, The First Pennsylvania Banking and Trust Company was changed and converted into a national bank and concurrently therewith changed its name to First Pennsylvania Bank N.A., and on October 1, 1990, First Pennsylvania Bank N.A. merged with and into The Philadelphia National Bank, which changed its name to CoreStates Bank, N.A., and on October 10, 1995, Mellon Bank, N.A. succeeded CoreStates Bank, N.A. as trustee, and on November 24, 1997, Chase Manhattan Trust Company, National Association succeeded Mellon Bank, N.A. as Trustee, such mergers, changes of name and succession as trustee 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 Company duly executed and delivered to the Trustee a First Supplemental Indenture dated as of July 1, 1948, a Second Supplemental Indenture dated as of July 1, 1952, a Third Supplemental Indenture dated as of November 1, 1953, a Fourth Supplemental Indenture dated as of January 1, 1956, a Fifth Supplemental Indenture dated as of March 1, 1957, a Sixth Supplemental Indenture dated as of May 1, 1958, a Seventh Supplemental Indenture dated as of September 1, 1959, an Eighth Supplemental Indenture dated as of May 1, 1961, a Ninth Supplemental Indenture dated as of April 1, 1962, a Tenth Supplemental Indenture dated as of March 1, 1964, an Eleventh Supplemental Indenture dated as of November 1, 1966, a Twelfth Supplemental Indenture dated as of January 1, 1968, a Thirteenth Supplemental Indenture dated as of June 15, 1970, a Fourteenth Supplemental Indenture dated as of November 1, 1970, a Fifteenth Supplemental Indenture dated as of December 1, 1972, a Sixteenth Supplemental Indenture dated as of May 15, 1975, a Seventeenth Supplemental Indenture dated as of December 15, 1976, an Eighteenth Supplemental Indenture dated as of May 1, 1977, a Nineteenth Supplemental Indenture dated as of June 1, 1980, a Twentieth Supplemental Indenture dated as of August 1, 1983, a Twenty-First Supplemental Indenture, dated as of August 1, 1985, a Twenty-Second

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Supplemental Indenture, dated as of April 1, 1986, a Twenty-Third Supplemental Indenture, dated as of April 1, 1987, a Twenty-Fourth Supplemental Indenture, dated as of June 1, 1988, a Twenty-Fifth Supplemental Indenture, dated as of January 1, 1990, a Twenty-Sixth Supplemental Indenture, dated as of November 1, 1991, a Twenty-Seventh Supplemental Indenture, dated as of June 1, 1992, Twenty-Eighth Supplemental Indenture, dated as of April 1, 1993, a Twenty-Ninth Supplemental Indenture dated as of March 1, 1995, a Thirtieth Supplemental Indenture dated as of August 15, 1995, a Thirty-First Supplemental Indenture dated as of July 1, 1997 and a Thirty-Second Supplemental Indenture dated as of October 1, 1999 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, the Company has issued under the Original Indenture, as supplemented at the respective dates of issue, thirty-eight 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

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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
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and

WHEREAS, all of the bonds of each of said series are presently outstanding other than the bonds listed on Exhibit A attached hereto and made a part hereof; and

WHEREAS, the Original Indenture and said Supplemental Indentures were duly recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the following counties in the Mortgage Books and at the pages indicated in the following table:

[continued on next page]

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Indenture	Date of Recording	COUNTY							
		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
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	797
Thirty -Second Supplemental	10/6/99	-	-	-	-	1936	1207	8548	1067

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and

WHEREAS, the Original Indenture was recorded in Berks County on August 16, 1999 and the Thirty-Second Supplemental Indenture was recorded in Berks County on October 6, 1999 in Books 3113 and 3132 at Pages 707 and 1510, respectively; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented, one or more new series of bonds to be designated "First Mortgage Bonds, 1999 Medium Term Note Series, Subseries ___" (the "Bonds") to be limited in aggregate principal amount to \$300,000,000, to be issued hereunder only as registered bonds without coupons, to be dated as provided in the Original Indenture and this Thirty-Third Supplemental Indenture, to bear interest at the rates and mature on the dates as determined hereunder by the Company; and

WHEREAS, the Bonds may be issued in a single series or from time to time in more than one series designated as a "subseries" and, if so issued in more than one subseries, each subseries of the Bonds shall bear a separate letter designation and the first such subseries of the Bonds shall be designated "First Mortgage Bonds, 1999 Medium Term Note Series, Subseries A"; and

WHEREAS, the Company proposes to issue \$300,000,000 principal amount of the Bonds under the provisions of Article IV of the Original Indenture, as supplemented by this Thirty-Third Supplemental Indenture, in one or more transactions over a period of up to five years from November 18, 1999 through November 17, 2004 (the "Offering Period"), and, for each such transaction, 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, in addition to the property described in 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 and Thirty-Second Supplemental Indentures, the Company has acquired or will acquire certain other property and desires to confirm the lien of the Original Indenture thereon; and

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of said new series of Bonds (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Thirty-Third Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Thirty-Third Supplemental Indenture), and has further duly authorized the execution, delivery and recording of this Thirty-Third Supplemental Indenture setting forth the terms and provisions of the Bonds 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 Thirty-Third 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"), APPROVED BY [AGENT(S)] OR ANOTHER DULY APPOINTED PLACEMENT AGENT (THE "PLACEMENT AGENTS") OR BY THE COMPANY 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 DULY AUTHORIZED PAYING AGENT (AS DEFINED HEREIN) 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.

[Bonds eligible for deposit at The Depository Trust Company shall also bear the following legend:]

THIS BOND IS A PERMANENT GLOBAL BOND. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE COMPANY OR ITS AGENT FOR REGISTRATION OR TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

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No. R-

\$ _____

PHILADELPHIA SUBURBAN WATER
COMPANY

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 1999 Medium Term Note Series,
Subseries _____

PRINCIPAL AMOUNT _____
ORIGINAL ISSUE DATE _____
INTEREST RATE _____
MATURITY DATE _____
INITIAL REDEMPTION DATE _____
INITIAL REDEMPTION PERCENTAGE _____
ANNUAL REDEMPTION REDUCTION PERCENTAGE _____
[OPTIONAL TENDER DATE _____]

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 Cede & Co., as nominee for The Depository Trust Company ("DTC") or its registered assigns, on the Maturity Date referred to above, the sum of and to pay interest thereon at the Interest Rate per annum specified above, until the principal hereof is paid or duly made available for payment, semiannually on January 1 and July 1 (each an "Interest Payment Date") in each year commencing on the first Interest Payment Date next succeeding the Original Issue Date specified above (the "Original Issue Date"), unless the Original Issue Date or the date of authentication occurs between a Record Date, as defined below, and the next succeeding Interest Payment Date, in which case commencing on the second Interest Payment Date succeeding the Original Issue Date, to the registered holder of this bond of the 1999 Medium Term Note Series, as defined below, on the Record Date with respect to such Interest Payment Date, and on the maturity date specified on the face hereof (the "Maturity Date"), any date fixed for redemption pursuant to the terms hereof (the "Redemption Date") or any date fixed for the optional tender pursuant to the terms hereof (the "Tender Date"). Interest on this Bond of the 1999 Medium Term Note Series, as defined below, will accrue from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from the Original Issue Date specified above, until the principal hereof has been paid or made duly available for payment. If the Maturity Date (or any Redemption Date or Tender Date) or an Interest Payment Date falls on a day which is not a Business Day, as defined below, principal (and premium, if any) or

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interest payable with respect to such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date will be paid on the next succeeding Business Day with the same force and effect as if made on such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date, as the case may be, and no interest shall accrue with respect to such payment for the period from and after such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions, be paid to the nominee of DTC, in whose name this Bond of the 1999 Medium Term Note Series is registered at the close of business on the Record Date for such interest, which shall be the 15th day of the calendar month preceding such Interest Payment Date; provided, however, that interest payable on the Maturity Date (or any Redemption Date or Tender Date) will be payable to the person to whom the principal hereof shall be payable. 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 interest so payable will (except as otherwise provided in the Thirty-Third Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months.

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 Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities (now Chase Manhattan Trust Company, National Association, as successor trustee), as Trustee (hereinafter called 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, (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 an indenture supplemental to said Indenture known as the "Thirty-Third Supplemental Indenture" dated as of November 15, 1999, and designated therein as "First Mortgage Bonds, 1999 Medium Term Note Series, Subseries ___" (the "Bonds of the 1999 Medium Term Note Series").

The Bonds of the 1999 Medium Term Note Series will be issued in fully registered form, without coupons. The Bonds of the 1999 Medium Term Note Series will be deposited with, or on behalf of DTC and registered in the name of a nominee of DTC in the form of one or more global securities (the "Global Bonds")

or will remain in the custody of the Trustee pursuant to a Medium-Term Note Certificate Agreement, dated December 2, 1988, between DTC and The Chase Manhattan Bank, which was merged into Chemical Bank, which changed its name to The Chase Manhattan Bank. DTC was created to hold securities of persons who have accounts with DTC ("participants") and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants.

Upon the issuance of a Global Bond, DTC or its nominees will credit the respective Bonds of the 1999 Medium Term Note Series represented by such Global Bond to accounts of participants. The accounts to be credited shall be designated by the purchasers. Ownership of beneficial interests in such Global Bonds will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests by participants in such

Global Bonds will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC or its nominee for such Global Bonds. Ownership of beneficial interests in such Global Bonds by persons that hold through participants will be shown on, and the transfer of that ownership interest within such participant will be effected only through, records maintained by such participant.

So long as DTC or its nominee is the registered owner of a Global Bond, DTC or such nominee, as the case may be, will be considered the sole owner or holder of those Bonds of the 1999 Medium Term Note Series beneficially owned by other persons for all purposes under the Indenture. Except as set forth below, owners of beneficial interests in such Global Bonds will not be entitled to have the Bonds of the 1999 Medium Term Note Series registered in their names, will not receive or be entitled to receive physical delivery of the Bonds of the 1999 Medium Term Note Series in definitive form and will not be considered the owners or holders thereof under the Indenture.

Payment of principal of and any interest on the Bonds of the 1999 Medium Term Note Series registered in the name of or held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner or the holder of the Global Bond. Neither the Company, the Trustee nor any paying agent for the Bonds of the 1999 Medium Term Note Series will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Bond or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payment of principal or any interest on the Certificated Bonds (as defined below), if any, will be made to the registered owners thereof.

The Company expects that DTC, upon receipt of any payment of principal or interest in respect of a permanent Global Bond, will credit immediately participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Bond as shown on the records of DTC. The Company also expects that payments by participants to owners of beneficial interests in such Global Bond held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participants.

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A Global Bond may not be transferred except as a whole by DTC to a nominee or a successor of DTC. If DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Company within 90 days, the Company will issue Bonds of the 1999 Medium Term Note Series in definitive registered form (the "Certificated Bonds") in exchange for the Global Bond or Bonds representing such Bonds of the 1999 Medium Term Note Series. In addition, the Company may at any time and in its sole discretion determine not to have some of or all the bonds of the 1999 Medium Term Note Series represented by one or more Global Bonds and, in such event, will issue bonds of the 1999 Medium Term Note Series in definitive registered form in exchange for all of the Global Bonds representing such Bonds of the 1999 Medium Term Note Series. In any such instance, an owner of a beneficial interest in a Global Bond will be entitled to physical delivery of Certificated Bonds represented by such Global Bond equal in amount to that represented by such beneficial interest and to have such Certificated Bonds registered in its name.

Payments of principal, premium, if any, and interest shall be made in such coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts. Payments of interest, other than interest payable at the Maturity Date, or any earlier Redemption Date or Tender Date, will be paid in immediately available funds by wire transfer to the account of Cede & Co., as nominee for DTC, or, in the case of Certificated Bonds, by check mailed to the registered holder of such bond at the address shown in the Register maintained by the Trustee, or at the option of the registered holder, at such place in the United States of America as the registered holder shall designate to the Trustee in writing. Notwithstanding the foregoing, the registered holder of \$10,000,000 or more of Certificated Bonds with the same Interest Payment Date shall be entitled to receive payment by wire transfer of immediately available funds, provided that written instructions designating the account number and bank in New York, New York (or other bank consented to by the Company) shall have been received by the Trustee not less

than ten (10) days prior to the Record Date for such Interest Payment Date. Once such wire transfer instructions have been received by the Trustee they shall remain in effect unless (i) the Trustee is notified, in writing, of a change thereof not less than ten (10) days prior to the Record Date for an Interest Payment Date; or (ii) the registered holder no longer holds an aggregate principal amount of at least \$10,000,000 of Certificated Bonds having the same Interest Payment Date.

The principal amount hereof, premium, if any, and interest due on the Redemption Date, Tender Date or at the Maturity Date will be paid on the Redemption Date, Tender Date or at the Maturity Date in immediately available funds by wire transfer to such account at a bank in New York, New York (or such other bank consented to by the Company) as such holder of the bond of the 1999 Medium Term Note Series shall have designated for such payment or for the payment of interest as provided above. Payment to a registered holder of Bonds of the 1999 Medium Term Note Series for which appropriate instructions for payment have not been received by the Trustee not later than ten (10) days prior to the related date of payment shall be made by check mailed by the Trustee to the person entitled thereto at such person's address appearing in the registry maintained by the Trustee. Wire transfer instructions received by the Trustee in connection with the payment of principal, premium, if any, and interest due on the Redemption Date, Tender Date or the Maturity Date of the Bond of the 1999 Medium Term Note Series shall remain in effect unless the Trustee is notified of a change thereof not less than ten (10) days prior to the Redemption Date, Tender Date or Maturity Date. Payment of principal, premium, if any, and interest due on the Redemption Date, Tender Date or the Maturity Date on the Bond of the 1999 Medium Term Note Series shall only be made against presentation and surrender of this bond at a delivery office designated by the Trustee and maintained for that purpose in Dallas, Texas, or at such other office or agency of the Company as the Company shall designate.

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So long as the Bonds of the 1999 Medium Term Note Series are in book-entry form represented by Global Bonds registered in the name of Cede & Co., or another nominee of DTC, then Cede & Co., or such other nominee of DTC, as the case may be, will be considered the sole owner or holder of the Bonds of the 1999 Medium Term Note Series represented by such Global Bond for the purpose of receiving payment on the Bonds of the 1999 Medium Term Note Series, receiving notices and for all other purposes under the Indenture or the Global Bond. Ownership of beneficial interests in Global Bonds will be limited to persons who have accounts with DTC (the "participants") or persons that may hold interests through participants. Beneficial interests in a Global Bond will be evidenced only by, and transfers thereof will be effected only through, records maintained by DTC. Ownership of beneficial interests in such Global Bonds by persons that hold through participants will be shown on, and the transfer of that ownership interest within such participant will be effected only through, records maintained by such participant. In the case of Certificated Bonds, subject to certain restrictions set forth on the face hereof and in the Indenture, this bond may be transferred at the aforesaid office of the Trustee by surrendering this bond for cancellation, accompanied by a written instrument of transfer in form satisfactory to the Trustee and duly executed by the registered holder hereof in person or by the holder's attorney duly authorized in writing, and thereupon the Trustee will issue in the name of the transferee or transferees, in exchange hereof, a new bond or bonds having identical terms and provisions and having a like aggregate principal amount in authorized denominations, subject to the terms and conditions set forth herein; provided, however, that the Trustee will not be required to register the exchange or transfer of any Bond of the 1999 Medium Term Note Series after the first notice of redemption of such bond has been mailed or after the first notice of Tender (hereinafter defined) of such Bond has been received by the Trustee or during a period beginning at the opening of business ten (10) days preceding an Interest Payment Date. Bonds of the 1999 Medium Term Note Series are exchangeable at said office for other Bonds of the 1999 Medium Term Note Series of other authorized denominations of equal aggregate principal amount and having identical terms and provisions. All such exchanges of Bonds of the 1999 Medium Term Note Series will be free of charge, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge in connection therewith. All bonds of the 1999 Medium Term Note Series surrendered for exchange shall be accompanied by a written instrument of transfer in the form attached hereto to the Trustee and executed by the registered holder in person or by the holder's attorney duly authorized in writing.

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

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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 Bonds of the 1999 Medium Term Note Series are subject to redemption at the option of the Company on or after the Initial Redemption Date specified on the face hereof (if any), either as a whole or in part, in increments of \$1,000 (provided that any remaining principal hereof shall be at least \$100,000) on any Interest Payment Date in coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts at the Redemption Price equal to the Initial Redemption Percentage specified on the face hereof of the principal amount hereof, which shall decline on each anniversary of the Initial Redemption Date by the Annual Redemption Reduction Percentage specified on the face hereof of the principal amount to be redeemed until the Redemption Price is 100% of such principal amount, in each case plus accrued interest to the Redemption Date.

The Bonds of the 1999 Medium Term Note Series are subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. In such a mandatory redemption, the Bonds of the 1999 Medium Term Note Series are redeemable 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, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the Redemption Date.

Any redemption shall be effected by notice mailed to the registered owners thereof, as provided in the Indenture, at least thirty (30) days before the Redemption Date, all on the conditions and in the manner provided in the Indenture.

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.

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[Tender Bonds only - This bond is subject to optional tender ("Tender"), in its entirety, by holders thereof on the first Interest Payment

Date ("Tender Date") next succeeding the tenth anniversary of the Original Issue Date 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 at a tender price ("Tender Price") of one hundred percent (100%) of the principal amount thereof, plus accrued interest to the Tender Date.

Any Tender shall be effectuated by (1) notice ("Tender Notice") mailed (by registered mail with return receipt requested or other courier or express delivery service) by the registered owner of a Bond of the 1999 Medium Term Note Series to the Trustee at least thirty (30) days prior to the Tender Date, and (2) presentment to the Trustee of said Bond[s] of the 1999 Medium Term Note Series at least five (5) Business Days prior to the Tender Date.

If a Bond of the 1999 Medium Term Note Series which is subject to Tender is tendered and payment thereof is duly provided for, interest shall cease to accrue hereon from and after the Tender Date.

By delivery of the Tender Notice, the owner irrevocably agrees to deliver the bond or bonds described therein (if such bonds are in certificated form) to the delivery office of the Trustee at least five (5) Business Days prior to the Tender Date. The determination by the Trustee of a bondholder's compliance with the requirement of the Tender Notice is in its sole discretion and binding on the Company and the holder of the bond or bonds. Any Tender Notice which is determined not to be in compliance with the Thirty-Third Supplemental Indenture shall be of no force and effect.

If a holder who gives a Tender Notice shall fail to deliver the bond identified in the Tender Notice to the Trustee at or prior to 10:00 a.m. on the Purchase Date, such bond shall be deemed purchased and shall cease to accrue interest on such Tender Date and the holder thereof shall thereafter be entitled only to payment of the Tender Price therefor and to no other benefits of the Thirty-Third Supplemental Indenture.

Notwithstanding anything to the contrary herein, the right of the holders of a bond to tender the bonds shall cease immediately and without further notice from and including the date on which the Trustee notifies the holder of such bond of an acceleration under Article XI of the Indenture.]

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 of the 1999 Medium Term Note Series, 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.

When any notice to holders of the Bonds of the 1999 Medium Term Note Series requesting consents, waivers, votes or other actions of such holders is given by the Trustee hereunder at any time that the Bonds of the 1999 Medium Term Note Series are represented by Global Bonds registered in the name of Cede & Co., or another nominee of DTC, such notice shall be sent by the Trustee to DTC with a request that DTC forward (or cause to be forwarded) the notice to the DTC participants so that DTC participants may forward (or cause to be forwarded) the notice to the beneficial owners. The Trustee shall be entitled to rely on any omnibus proxy delivered by DTC and to consider those DTC participants to whose account the Bonds of the 1999 Medium Term Note Series are credited on any record date or special record date, as appropriate, and identified in a listing attached to the omnibus proxy, as owners of the aggregate amount of Bonds of the 1999 Medium Term Note Series set forth on such listing for purposes of any consent, waiver, vote or other action of holders of such Bonds of the 1999 Medium Term Note Series.

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.

The Bonds of the 1999 Medium Term Note Series and related documentation may be amended or supplemented from time to time by the Company without the consent of any holder of Bonds of the 1999 Medium Term Note Series to modify the restrictions on and procedures for resale and other transfers of the Bonds of the 1999 Medium Term Note Series 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. Each holder of any bond of the 1999 Medium Term Note Series will be deemed, by the acceptance of such bond, to have agreed to any such amendment or supplement.

The Company agrees to make available to any holder of Bonds of the 1999 Medium Term Note Series or a prospective purchaser of Bonds of the 1999 Medium Term Note Series, each of whom is a Qualified Institutional Buyer as defined in Rule 144A of the Securities Act of 1933, as amended, such information required by Rule 144A to enable resales of the Bonds of the 1999 Medium Term Note Series to be made pursuant to Rule 144A. However, the Company shall not be required to provide more information than was required by Rule 144A as originally adopted but may elect to do so, if necessary, under subsequent revisions of Rule 144A.

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 Chase Manhattan Trust Company, National Association, as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

This Bonds of the 1999 Medium Term Note Series 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, Philadelphia Suburban Water Company 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 _____.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY
By _____
Assistant Secretary Vice President and Treasurer

[Form of Trustee's Certificate]

This bond is one of the bonds, of the series designated therein, referred to in the within-mentioned Thirty-Third Supplemental Indenture.

CHASE MANHATTAN TRUST COMPANY,
NATIONAL ASSOCIATION, 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 Original Issue Date 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 the Placement Agent referred to in such legend or to the Company or (ii) through the Placement Agent or by the 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 the 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.

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 Thirty-Third Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Thirty-Third

Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Thirty-Third Supplemental Indenture has been in all respects duly authorized:

NOW, THEREFORE, THIS THIRTY-THIRD 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 Thirty-Third Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, has granted, bargained, sold, aliened, infeted, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto Chase Manhattan Trust Company, National Association 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:

I.

REAL ESTATE AND WATER RIGHTS.

The real estate described in the deeds from the grantors named in Exhibit B hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Thirty-Second 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.

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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.

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.

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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.

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.

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IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every person or corporation 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 and Tender Provisions

SECTION 1. There shall be a thirty-ninth series (and later series as described herein) of bonds, limited in aggregate principal amount to \$300,000,000 designated as "Philadelphia Suburban Water Company First Mortgage Bonds, 1999 Medium Term Note Series, Subseries "___" (the "Bonds"). The Bonds may be issued at any time during the Offering Period in a single subseries or from time to time during the Offering Period in more than one subseries pursuant to this Thirty-Third Supplemental Indenture and the Original Indenture. Each subseries of the Bonds issued hereunder shall constitute a separate series for purposes of this Thirty-Third Supplemental Indenture and the Original Indenture. Each subseries of the Bonds shall be initially authenticated and delivered from time to time upon delivery to the Trustee of the items specified in Article IV of the Original Indenture, including the initial authorizing resolution of the Board of Directors of the Company for the issuance of the Bonds (a "Series Authorizing Resolution") and a certificate of an authorized officer of the Company issued pursuant to said resolution (a "Subseries Authorizing Certificate") specifying the principal amount of the Bonds of such subseries to be issued on the specified date of issuance, the numbers, denominations, redemption date or dates, tender date if any, maturity date or dates, redemption prices and interest rate or rates of such Bonds.

Interest on each subseries of the Bonds shall be payable

semiannually on January 1 and July 1 (each an "Interest Payment Date") in each year commencing on the first Interest Payment Date next succeeding the date of authentication of such Bond (the "Original Issue Date"), unless the Original Issue Date or the date of authentication occurs between a Record Date, as defined below, and the next succeeding Interest Payment Date, in which case commencing on the second Interest Payment Date succeeding the Original Issue

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Date or the date of authentication, to the registered holders of the Bonds on the Record Date with respect to such Interest Payment Date, and on the maturity date specified on the face of the Bond (the "Maturity Date") or any date fixed for tender or redemption pursuant to the terms of such Bond (the "Tender Date" or "Redemption Date" respectively). Interest on each subseries of Bonds will accrue from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from its Original Issue Date, until the principal has been paid or made duly available for payment. If the Maturity Date (or any Redemption Date or Tender Date) or an Interest Payment Date falls on a day which is not a Business Day, as defined below, principal (and premium, if any) or interest payable with respect to such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date will be paid on the next succeeding Business Day with the same force and effect as if made on such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date, as the case may be, and no interest shall accrue with respect to such payment for the period from and after such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date. The term "Record Date" as used in this Section 1 with respect to any regular Interest Payment Date shall mean the 15th day of the calendar month preceding such Interest Payment Date. 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.

Each subseries of the Bonds shall be stated to mature (subject to the right of earlier redemption or Tender at the prices and dates and upon the terms and conditions hereinafter set forth) and shall bear interest at the rates set forth in the Subseries Authorizing Certificate.

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.

Payments of principal, premium, if any, and interest shall be made in such coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts. Payments of interest, other than interest payable at the Maturity Date, or any earlier Redemption Date or Tender Date, will be paid in immediately available funds by wire transfer to the account of Cede & Co., as nominee for DTC, or, in the case of Certificated Bonds, by check mailed to the registered holder of such bond at the address shown in the Register maintained by the Trustee, or at the option of the registered holder, at such place in the United States of America as the registered holder shall designate to the Trustee in writing. Notwithstanding the foregoing, the registered holder of \$10,000,000 or more of Certificated Bonds with the same Interest Payment Date shall be entitled to receive payment by wire transfer of immediately available funds, provided that written instructions designating the account number and bank in New York, New York (or other bank consented to by the Company) shall have been received by the Trustee not less than ten (10) days prior to the Record Date for such Interest Payment Date. Once such wire transfer instructions have been received by the Trustee they shall remain in effect unless (i) the Trustee is notified, in writing, of a change thereof not less than ten (10) days prior to the Record Date for an Interest Payment Date; or (ii) the registered holder no longer holds an aggregate principal amount of at least \$10,000,000 of Certificated Bonds having the same Interest Payment Date.

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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.

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.

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. Each subseries of the Bonds shall be subject to redemption at the option of the Company on and after the Initial Redemption Date indicated on the face of the Bonds. On and after the Initial Redemption Date, the Bonds of such subseries may be redeemed in whole or in part in increments of \$1,000 (provided that any remaining principal hereof shall be at least \$100,000) at the option of the Company at the Redemption Price (hereinafter defined), together with interest thereon payable to the Redemption Date.

The Redemption Price shall initially be the Initial Redemption Percentage specified on the face of such subseries of the Bonds of the principal amount of such subseries and, if applicable, shall decline on each anniversary of the Initial Redemption Date by the Annual Redemption Reduction Percentage specified on the face of such Subseries of the Bonds, of the principal amount to be redeemed until the Redemption Price is 100% of such principal amount.

SECTION 3. Each subseries of the Bonds shall be subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. The Bonds are redeemable 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, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

SECTION 4. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 5. During the Offering Period, there will be delivered to the Trustee an adequate number of executed Bonds which will have the Bond number, principal amount, Original

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Issue Date, interest rate, Maturity Date, Initial Redemption Date, Initial Redemption Percentage and Annual Redemption Reduction Percentage left blank. Each Bond will be signed and sealed manually or by facsimile on behalf of the Company, to be held in safekeeping by the Trustee for the account of the Company. If an officer of the Company whose signature is on a Bond no longer holds such office at the time the Trustee delivers the Bond in accordance with the Indenture, the Bond will be valid nevertheless. Each subseries of the Bonds may 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 and receipt of a Series Authorizing Resolution for such subseries.

SECTION 6. A Bond of the 1999 Medium Term Note Series which

has a Maturity Date which is more than ten years after the Original Issue Date may, at the option of the Company, be issued by the Company subject to optional tender ("Tender"), in its entirety, by holders thereof on the first Interest Payment Date next succeeding the tenth anniversary of the Original Issue Date ("Tender Date") 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 at a tender price ("Tender Price") of one hundred percent (100%) of the principal amount thereof, plus accrued interest to the Tender Date.

Any Tender shall be effectuated by (1) notice ("Tender Notice") mailed (by registered mail with return receipt requested or other courier or express delivery service) by the registered owner of a Bond of the Medium Term Notes Series to the Trustee at least thirty (30) days prior to the Tender Date, and (2) presentment to the Trustee of said Bond[s] of the 1999 Medium Term Note Series at least five (5) Business Days prior to the Tender Date.

If a Bond of the 1999 Medium Term Note Series which is subject to Tender is tendered and payment thereof is duly provided for, interest shall cease to accrue hereon from and after the Tender Date.

By delivery of the Tender Notice, the owner irrevocably agrees to deliver the bond or bonds described therein (if such bonds are in certificated form) to the delivery office of the Trustee designated in Article V, Section 2 hereof at least five (5) Business Days prior to the Tender Date. The determination by the Trustee of a bondholder's compliance with the requirement of the Tender Notice is in its sole discretion and binding on the Company and the holder of the bond or bonds. Any Tender Notice which is determined not to be in compliance with this Thirty-Third Supplemental Indenture shall be of no force and effect.

If a holder who gives a Tender Notice shall fail to deliver the bond identified in the Tender Notice to the Trustee at or prior to 10:00 a.m. on the Purchase Date, such bond shall be deemed purchased and shall cease to accrue interest on such Tender Date and the holder thereof shall thereafter be entitled only to payment of the Tender Price therefor and to no other benefits of this Thirty-Third Supplemental Indenture.

Notwithstanding anything to the contrary herein, the right of the holders of a bond to tender the bonds shall cease immediately and without further notice from and including the date on which the Trustee notifies the holder of such bond of an acceleration under Article XI of the Indenture.

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 9.89% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after 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 9.12% Series due 2010 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 next March 1 next occurring after the bonds of the 9.17% Series due 2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6.50% Series due 2010 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 5.95% Series due 2002 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7.15% Series due 2008 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, the 6.82% Subseries B due 2005, the 6.89% Subseries C due 2015, the 6.99% Subseries D due 2006, the 7.47% Subseries E due 2003, the 6.83% Subseries F due 2003, and the 7.06% Subseries G due 2004) shall cease to be outstanding, or on or before the March 1 next

occurring after bonds of the 6.35% Series due 2025 shall cease to be outstanding, on or before the March 1 next occurring after the bonds of any of the Subseries of the 1997 Medium Term Note Series issued under the Thirty-First Supplemental Indenture (consisting of the 6.75% Subseries A due 2007, the 6.30% Subseries B due 2002, the 6.14% Subseries C due 2008, the 5.80% Subseries D due 2003, the 5.85% Subseries E due 2004 and the 6.00% Subseries F due 2004) cease to be outstanding, or on or before March 1 next occurring after the bonds of 6.00% Series due 2029 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;

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(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;

(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

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(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.

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, the Tender Price 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 Thirty-Third 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, 1998, 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) and (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:

"Stock Payment" shall mean any payment in cash or property (other than common 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.

"Excluded Earnings" shall mean 35% of the Company's Net Income during any Restricted Period.

"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.

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"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 Restricted Period, as determined in accordance with generally accepted accounting principles consistently applied, after payment of or provision for taxes on income for such Restricted Period.

"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.

"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 (as defined in the Indenture) 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.

"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.

"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.

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 or a natural person (or his estate)) of any such corporation.

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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 Thirty-Third Supplemental Indenture, and in this Thirty-Third Supplemental Indenture set forth, and upon the terms and conditions set forth in Article IV hereof.

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, including the reimbursement of expenses, to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act and rely 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.

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 Outstanding 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 or for any Environmental Claim (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

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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. ss.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. ss.6991) and the regulations issued thereunder; (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. ss.1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. ss. 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. ss.ss.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 (h) inclusive in the preceding sentence and the term "Environmental Claim" shall mean with respect to any person, any action, suit, proceeding, investigation, notice, claim, complaint, demand, request for information or other communication (written or oral) by any other person (including any governmental authority, citizens group or employee or former employee of such person) alleging, asserting or claiming any actual or potential: (a) violation of any Environmental Statutes, (b) liability under any Environmental Statutes or (c) liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, fines or penalties arising out of, based on, or resulting from, the presence or release into the environment of any Hazardous Substances at any location, whether or not owned by such person.

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 and Thirty-Second Supplemental Indentures are hereby confirmed. All references in this Thirty-Third 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 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.

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SECTION 2. Any notices to the Trustee under this Thirty-Third Supplemental Indenture shall be delivered to the Trustee at its administrative office by registered or certified mail, hand delivery or other courier or express delivery service (with receipt confirmed) or by telecopy (with receipt confirmed) at the following address:

Chase Manhattan Trust Company, National Association
Capital Markets Fiduciary Services
1650 Market Street, Suite 520
Philadelphia, PA 19103
Attention: Philadelphia Suburban Water Administrator
Telecopy: (215) 972-1685

Any Bonds of the 1999 Medium Term Note Series being delivered to the Trustee for payment, exchange or which have been tendered, if certificated, shall be delivered to the Trustee's delivery office currently located at:

Chase Bank of Texas, N.A.
CT Services
1201 Main St., 18th Fl.
Dallas, TX 75202

Any change in such address or telecopy number may be made by notice to the Company delivered in the manner set forth above.

SECTION 3. All recitals in this Thirty-Third 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 Thirty-Third Supplemental Indenture is dated for convenience and for the purpose of reference as of November 15, 1999, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

SECTION 5. In order to facilitate the recording or filing of this Thirty-Third 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.

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ARTICLE VI

Environmental Matters

SECTION 1. The Company represents as follows:

(a) It is in compliance with all applicable Environmental Statutes except for matters which, individually or in the aggregate, could not have a Material Adverse Effect.

(b) It has all Environmental Approvals necessary or desirable for the ownership and operation of its properties, facilities and businesses as presently owned and operated except for matters which, individually or in the aggregate, could not have a Material Adverse Effect.

(c) There is no Environmental Claim pending or, to its knowledge after due inquiry, threatened, and there are no past or present acts, omissions, events or circumstances that could form the basis of any Environmental Claim, against it except for matters which, individually or in the aggregate, could not have a Material Adverse Effect.

(d) No facility or property now or previously owned, operated or leased by it is an Environmental Cleanup Site.

SECTION 2. The Company covenants as follows:

(a) It will comply with all applicable Environmental Statutes.

(b) Promptly upon becoming aware of any Environmental Claim pending or threatened against it, or any past or present acts, omissions, events or circumstances that could form the basis of such Environmental Claim, which if adversely resolved, individually or in the aggregate, could have a Material Adverse Effect, it shall give the Trustee prompt written notice thereof, together with a written statement of an Authorized Executive Officer of the Company setting forth the details thereof and any action with respect thereto taken or proposed to be taken by the Company.

SECTION 3. The Company agrees to indemnify and hold harmless the Trustee, all its directors, officers, employees and agents, against any and all losses, claims, damages or liabilities, joint or several, to which it may become subject under the law of any jurisdiction insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any violation or breach by the Company of any Environmental Statutes, or any Environmental Claim arising out of the management, use, control, ownership or operation of the Premises.

SECTION 4. For purposes of this Article VI, the following terms shall have the indicated meanings.

"Environmental Concern Materials" shall mean (a) any flammable substance, explosive, radioactive material, hazardous material, hazardous waste, toxic substance, solid waste, pollutant, contaminant or any related material, raw material, substance, product or by-product of any substance specified in, or regulated by, any "Environmental Statute", (b) any toxic chemical or other substance from or related to industrial, commercial or institutional activities, and (c) asbestos, gasoline, diesel fuel, motor oil, waste and used oil, heating oil and other petroleum products or compounds, polychlorinated biphenyls, radon and urea formaldehyde.

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"Material Adverse Effect" shall mean a material adverse effect on the business, operations, condition (financial or otherwise) or prospects of the Company.

"Environmental Cleanup Site" shall mean any location which is listed or proposed for listing on the National Priorities List, on CERCLIS or on any similar state list of sites requiring investigation or cleanup, or which is the subject of any pending or threatened action, suit, proceeding or investigation related to or arising from any alleged violation of any Environmental Law.

"Environmental Approvals" shall mean any governmental action pursuant to or required under any Environmental Law.

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IN WITNESS WHEREOF the parties hereto, intending to be legally bound, have caused their corporate seals to be hereunto affixed and their Presidents or Vice-Presidents, under and by the authority vested in them, have hereto affixed their signatures, and their Secretaries or Assistant Secretaries or Authorized Officers have duly attested the execution hereof, as of the ___ day of November, 1999.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER
COMPANY

Attest /s/ Patricia M. Mycek

Secretary

By:/s/ Kathy Lee Pape

Vice President and Treasurer

[CORPORATE SEAL]

CHASE MANHATTAN TRUST COMPANY,
NATIONAL ASSOCIATION, as Trustee

Attest: /s/ Michael J. Judge

Authorized Signer

By:/s/ Catherine Lenhardt

Assistant Vice President

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COMMONWEALTH OF PENNSYLVANIA:

COUNTY OF MONTGOMERY:

On the 19th day of November, 1999, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Kathy L. Pape, who acknowledged herself to be the Vice President and Treasurer of Philadelphia Suburban Water Company, a corporation, and that she as such Vice President and Treasurer, being authorized to do so, executed the foregoing Thirty-Third 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/ Suzanne Falcone
Notary

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COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 18th day of November, 1999 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Catherine Lenhardt, who acknowledged herself to be an Assistant Vice President of Chase Manhattan Trust Company National Association, Trustee, a national banking association, and that she as such Assistant Vice President, being authorized to do so, executed the foregoing Thirty-Third Supplemental Indenture as and for the act and deed of said national banking association and for the uses and purposes therein mentioned by signing the name of said national banking association by herself as such officer.

In Witness Whereof I hereunto set my hand and official seal.

[NOTARIAL SEAL]

/s/ Joan F. Wilson
Notary

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EXHIBIT A

Exhibit A
Bonds Redeemed or Paid at Maturity

Series	Principal Amount Paid or Redeemed (If less than all Bonds of Series)	Date Paid	Maturity
3.25% Series Due 1971		12/31/1970	Redemption
9.63% Series Due 1975		06/15/1975	Maturity
9.15% Series Due 1977		01/01/1977	Maturity
3.00% Series Due 1978		07/01/1978	Maturity
3.38% Series Due 1982		07/01/1982	Maturity
3.90% Series Due 1983		07/01/1983	Maturity
3.50% Series Due 1986		01/01/1986	Maturity
4.50% Series Due 1987		01/01/1987	Maturity
4.13% Series Due 1988		05/01/1988	Maturity
5.00% Series Due 1989		09/01/1989	Maturity
4.63% Series Due 1991		05/01/1991	Maturity
4.70% Series Due 1992		04/01/1992	Maturity
6.88% Series Due 1993		01/01/1993	Maturity
4.55% Series Due 1994		03/01/1994	Maturity
10.13% Series Due 1995	\$ 6,300,000	-	Sinking Fund
10.13% Series Due 1995	\$ 3,700,000	05/17/1993	Redemption
9.20% Series Due 2001	\$ 3,850,000	-	Sinking Fund
9.20% Series Due 2001	\$ 3,150,000	05/01/1993	Redemption
8.40% Series Due 2002	\$ 5,850,000	-	Sinking Fund
8.40% Series Due 2002	\$ 4,150,000	01/02/1996	Redemption
5.95% Series Due 2002	\$ 2,400,000	-	Sinking Fund
12.45% Series Due 2003	\$ 1,000,000	08/01/1993	Sinking Fund
12.45% Series Due 2003	\$ 9,000,000	08/02/1993	Redemption
8.88% Series Due 2010	\$ 800,000	-	Sinking Fund
8.88% Series Due 2010	\$ 7,200,000	06/30/1992	Redemption
13.00% Series Due 2005		08/02/1995	Redemption
7.88% Series Due 1997		01/02/1996	Redemption
10.65% Series Due 2006		04/02/1996	Redemption
5.50% Series Due 1996		11/01/1996	Maturity
8.44% Series Due 1997		04/01/1997	Maturity
7.15% Series Due 2008	\$ 4,000,000	-	Sinking Fund

A-1

EXHIBIT B

No New Property

B-1

This Thirty-Third Supplemental Indenture was recorded on November 30, 1999 in the Office for the Recording of Deeds for each of the five counties tabulated below in the Mortgage Book and at the page indicated:

Mortgage Book	Page
----	----

County		
Berks.....	_____	_____
Bucks.....	_____	_____
Chester.....	_____	_____
Delaware.....	_____	_____
Montgomery.....	_____	_____

For the recording information with respect to the Original Indenture and the first thirty-two supplemental indentures, see pages 4 and 5 of this Thirty-Third Supplemental Indenture.

CREDIT AGREEMENT

among

PHILADELPHIA SUBURBAN WATER COMPANY

and

THE BANKS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION
as Agent

Dated as of December 22, 1999

\$50,000,000

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CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") dated as of December 22, 1999, by and among PHILADELPHIA SUBURBAN WATER COMPANY, a Pennsylvania corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), and PNC BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent (in such capacity, the "Agent").

BACKGROUND

The Borrower has requested that the Banks make Loans (that term and certain other terms are defined in Section 1.1 hereof) to the Borrower, and the Banks severally have agreed to make Loans on the terms and conditions herein contained. Proceeds of the Loans will be used for refinancing existing indebtedness and general working capital purposes including financing acquisitions.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements herein set forth and for other consideration, the receipt and sufficiency of which is hereby acknowledged and intending to be legally bound hereby, covenant and agree as follows:

SECTION 1 DEFINITIONS

1.1 Defined Terms As used in this Agreement, the following terms shall have the following meanings:

"Administrative Fees": as defined in subsection 2.4(c).

"Affiliate": any Person (other than a Subsidiary, or an officer, director or employee of the Borrower who would not be an Affiliate but for such Person's status as an officer, director and/or employee) which, directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with, the Borrower, and any member, director, officer or employee of any such Person or any Subsidiary of the Borrower. For purposes of this definition, "control" shall mean the power, directly or indirectly, either to (i) vote 5% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or in effect cause the direction of the management and policies of such Person whether by contract or otherwise.

"Assignment and Acceptance": an assignment and acceptance entered into by a Bank and an assignee, and acknowledged by the Agent, in the form of Exhibit C or such other form as shall be approved by the

Agent.

"Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the Prime Rate in effect on such day. Any change in the Base Rate due to a change in the Prime Rate shall be effective on the effective date of such change in the Prime Rate.

"Base Rate Borrowing": a Borrowing comprised of Base Rate Loans.

"Base Rate Loan": any Revolving Credit Loan bearing interest at a rate determined by reference to the Base Rate.

"Borrower": as defined in the heading of this Agreement.

"Borrowing": a Swing Line Loan made by the Swing Line Bank or each group of Revolving Credit Loans of a single Type made by the Banks on a single date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Request": a request made pursuant to Section 2.1(c) in the form of Exhibit A.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in Philadelphia, Pennsylvania are authorized or required by law to close; provided, however, that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London Interbank Market.

"Capital Lease": at any time, a lease with respect to which the lessee is required to recognize the acquisition of an asset and the incurrence of a liability in accordance with GAAP.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

"Closing": as defined in Section 4.3.

"Closing Date": as defined in Section 4.3.

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"Closing Fee": as defined in Section 2.4(a)

"Code": the Internal Revenue Code of 1986, as amended from time to time.

"Commitment": as to any Bank, the obligation of such Bank to make Loans to the Borrower hereunder in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Bank's name on Schedule I or in the Assignment and Acceptance pursuant to which such Bank becomes a party to this Agreement, as the same may be permanently terminated, reduced and extended from time to time pursuant to the provisions of Section 2.9 or changed by subsequent assignments pursuant to subsection 9.6(b).

"Commitment Percentage": as to any Bank at any time, the proportion (expressed as a percentage) that such Bank's Commitment bears to the Total Commitment (or, at any time after the Commitments shall have expired or been terminated, the percentage which the amount of such Bank's Loans constitutes of the aggregate amount of the Loans of the Banks then outstanding).

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Consolidated Assets": at any time, the amount at which all assets (including, without duplication, the capitalized value of any leasehold interest under any Capital Lease) of the Borrower would be reflected on a consolidated balance sheet of the Borrower at such time.

"Consolidated EBIT": for any period, Consolidated Net Income for such period, plus the amount of income taxes and interest expense deducted from earnings in determining such Consolidated Net Income.

"Consolidated EBITDA": for any period, Consolidated Net Income for such period, plus the amount of income taxes, interest expense, depreciation and amortization deducted from earnings in determining such Consolidated Net Income.

"Consolidated Funded Debt": at any time, all Debt of the Borrower determined on a consolidated basis consisting of, without duplication (a) borrowed money Debt, including without limitation capitalized lease obligations; (b) reimbursement obligations in respect of letters of credit, bank guarantees and the like; and (c) Debt in the nature of a Contingent Obligation, whether or not required to be reflected on a balance sheet of the Borrower in accordance with GAAP.

"Consolidated Interest Expense": for any period, the amount of cash interest expense deducted from earnings of the Borrower in determining Consolidated Net Income for such period in accordance with GAAP.

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"Consolidated Net Income": for any fiscal period, net earnings (or loss) after income and other taxes computed on the basis of income of the Borrower for such period determined on a consolidated basis in accordance with GAAP, but excluding:

(a) the amount of any extraordinary items included in such calculation of net earnings (or loss);

(b) any gain or loss resulting from the write-up or write-off of fixed assets;

(c) earnings of any Subsidiary accrued prior to the date it became a Subsidiary;

(d) earnings of any Person, substantially all assets of which have been acquired in any manner, realized by such Person prior to the date of such acquisition; and

(e) any gain arising from the acquisition of any Securities of the Borrower or any Subsidiary thereof.

"Consolidated Shareholders' Equity": at a particular date, the net book value of the shareholders' equity of the Borrower as would be shown on a consolidated balance sheet at such time determined in accordance with GAAP.

"Contingent Obligation": with respect to any Person (for the purpose of this definition, the "Obligor") any obligation (except the endorsement in the ordinary course of business of instruments for deposit or collection) of the Obligor guaranteeing or in effect guaranteeing any indebtedness of any other Person (for the purpose of this definition, the "Primary Obligor") in any manner, whether directly or indirectly, including (without limitation) indebtedness incurred through an agreement, contingent or otherwise, by the Obligor:

(a) to purchase such indebtedness of the Primary Obligor or any Property or assets constituting security therefor;

(b) to advance or supply funds

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(i) for the purpose of payment of such indebtedness (except to the extent such indebtedness otherwise appears on Borrower's balance sheet as indebtedness), or

(ii) to maintain working capital or other balance sheet condition or any income statement condition of the Primary Obligor or otherwise to advance or make available funds for the purchase or payment of such indebtedness or obligation; or

(c) to lease Property or to purchase Securities or other Property or services primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the Primary Obligor to make payment of the indebtedness or obligation.

For purposes of computing the amount of any Contingent Obligation, in connection with any computation of indebtedness or other liability, it shall be assumed that, without duplication, the indebtedness or other liabilities of the Primary Obligor that are the subject of such Contingent Obligation are direct obligations of the issuer of such Obligation.

"Contractual Obligation": as to any Person, any provision of any Security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Debt": with respect to any Person, at any time, without duplication, all of (i) its liabilities for borrowed money, (ii) liabilities secured by any Lien existing on property owned by such Person (whether or not such liabilities have been assumed), (iii) its liabilities in respect to Capital Leases; (iv) its liabilities under Contingent Obligations; and (v) all other obligations which are required by GAAP to be shown as liabilities on its balance sheet but excluding (x) deferred taxes and other deferred or long-term liabilities and other amounts not in respect of borrowed money and (y) the aggregate amount of accounts receivable sold, factored or otherwise transferred for value without recourse (other than for breach of representations).

"Default": any of the events specified in Section 7, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition precedent therein set forth, has been satisfied.

"Distribution": in respect of any corporation, (a) dividends, distributions or other payments on account of any capital stock of the corporation (except distributions in common stock of such corporation); (b) the redemption or acquisition of such stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for common stock of such corporation); and (c) any payment on account of,

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or the setting apart of any assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of any share of any class of capital stock of such corporation or any warrants or options to purchase any such stock.

"Dollars" and "\$": dollars in lawful currency of the United States of America.

"Environmental Laws": any and all applicable foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or binding requirements of any Governmental Authority, or binding Requirement of Law (including common law) regulating, relating to or imposing liability or standards of conduct

concerning protection of the environment, as now or may at any time hereafter be in effect.

"Equity to Capital Ratio": at the date of determination, the ratio of Consolidated Shareholders' Equity to the sum of (i) Consolidated Funded Debt and (ii) Consolidated Shareholders' Equity.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Base Rate": with respect to any Eurodollar Loan for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the rate determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates of interest per annum for Dollars set forth on Telerate display page 3750 or such other display page on the Telerate System as may replace such page to evidence the average of rates quoted by banks designated by the British Bankers' Association (or appropriate successor, or if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent), for an amount approximately equal in principal amount to the Agent's portion of such Eurodollar Loan.

"Eurodollar Borrowing": a Borrowing comprised of Eurodollar Loans.

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"Eurodollar Loan": any Revolving Credit Loan bearing interest at a rate determined by reference to the Eurodollar Rate in accordance with the provisions of Section 2.

"Eurodollar Rate": with respect to each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined in accordance with the following formula (rounded upward to the nearest 1/100th of 1%):

Eurodollar Base Rate

1.00 - Eurocurrency Reserve Requirements

"Event of Default": any of the events specified in Section 7, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Exposure": as to any Bank at any date, an amount equal to the sum of (a) the aggregate principal amount of all Loans made by such Bank then outstanding and (b) the principal amount of such Bank's pro rata share of Swing Line Loans then outstanding based on its Commitment Percentage.

"Facility Fee": as defined in subsection 2.4(b).

"Federal Funds Effective Rate": for any day, the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for the day of such transactions received by the Agent from three Federal

funds brokers of recognized standing selected by it.

"Fee Letter": that certain letter from the Agent to the Borrower dated December 22, 1999 regarding certain administrative fees.

"Fees": the Closing Fees, the Facility Fees and the Administrative Fees.

"GAAP": at any time with respect to the determination of the character or amount of any asset or liability or item of income or expense, or any consolidation or other accounting computation, generally accepted accounting principles as applied to the public utility industry, as such principles shall be in effect on the date of, or at the end of the period covered by, the financial statements from which such asset, liability, item of income, or item of expense, is derived, or, in the case of any such computation, as in effect on the date when such computation is required to be determined, subject to Section 1.3(b).

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

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"Guarantor": any Material Subsidiary which becomes a "Guarantor" after the date hereof pursuant to Section 5.11.

"Guaranty": any Guaranty Agreement entered into by a Guarantor pursuant to Section 5.11.

"Indenture": means the Indenture of Mortgage dated as of January 1, 1941 between the Borrower and Chase Manhattan Trust Company, National Association, as successor Trustee, as amended and supplemented.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Coverage Ratio": at the date of determination, the ratio of Consolidated EBIT to Consolidated Interest Expense, in each case for the prior four (4) consecutive fiscal quarters.

"Interest Payment Date": (a) as to any Base Rate Loan or Swing Line Loan, the last day of each month, (b) as to any Eurodollar Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any Eurodollar Loan having an Interest Period longer than three months, each day which is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period.

"Interest Period": with respect to any Eurodollar Loan:

(i) initially the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in their notice of borrowing or notice of conversion, given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

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provided that, the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iii) an Interest Period that otherwise would extend beyond the Termination Date shall end on the Termination Date; and

(iv) the Borrower shall select Interest Periods so as not to require a payment or prepayment of any Eurodollar Loan during an Interest Period for such Loan.

"Investments": investments (by loan or extension of credit, purchase, advance, guaranty, capital contribution or otherwise) made in cash or by delivery of Property, by the Borrower (i) in any Person, whether by acquisition of stock or other ownership interest, indebtedness or other obligation or Security, or by loan, advance or capital contribution, or (ii) in any Property or (iii) any agreement to do any of the foregoing.

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

"Loan Documents": this Agreement, the Notes and any Guaranty.

"Loans": the collective reference to the Revolving Credit Loans and the Swing Line Loans.

"Material Adverse Effect": a material adverse effect on (a) the validity or enforceability of this Agreement or any other Loan Document, (b) the business, prospects, Property, assets, financial condition, results of operations or prospects of the Borrower, (c) the ability of the Borrower duly and punctually to pay its Debts and perform its obligations hereunder, or (d) the ability of the Agent or any of the Banks,

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to the extent permitted, to enforce their legal remedies pursuant to this Agreement or any other Loan Document.

"Material Subsidiary": a Subsidiary of the Borrower the assets or net earnings of which, determined in accordance with GAAP, constitute more than 5% of the Borrower's Consolidated Assets or Consolidated Net Income, as the case may be.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

"Moody's": Moody's Investors Service, Inc.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a) (3) of ERISA.

"Notes": the Revolving Credit Notes and the Swing Line Notes.

"Parent Company": Philadelphia Suburban Corp., a Pennsylvania corporation.

"Participant": as defined in Section 9.6(f).

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Acquisition": an acquisition by the Borrower of the stock or assets of a Person engaged in businesses similar or incidental or ancillary to Borrower's existing business, provided that at least 30 days prior to the consummation of any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$50,000,000, no Default or Event of Default shall exist or would exist if such acquisition were consummated on such date (assuming for purposes of the covenants contained in Section 6.1 that pro forma adjustments are made to the financial statements of the Borrower reflecting such acquisition; provided, that historical EBIT of the Person to be acquired (or the assets of which are to be acquired) shall be included for purposes of calculating such covenant compliance only if historical financial statements of such Person are received by the Agent at least 30 days prior to the consummation of such acquisition), and the Borrower shall have delivered to the Agent a certificate of a Responsible Officer showing calculations in reasonable detail demonstrating such pro forma compliance with the covenants contained in Section 6.1, and provided further, that any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$75,000,000, shall also have been consented to by the Required Banks.

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"Permitted Investments": Investments in:

(a) one or more Material or Wholly-Owned Subsidiaries thereof;

(b) Property to be used in the ordinary course of business of the Borrower;

(c) current assets arising from the sale or purchase of goods and services in the ordinary course of business of the Borrower;

(d) direct obligations of the United States of America, or any agency or instrumentality thereof or obligations guaranteed by the United States of America, provided that such obligations mature within one (1) year from the date of acquisition thereof;

(e) certificates of deposit, time deposits or banker's acceptances, maturing within one (1) year from the date of acquisition, with banks or trust companies organized under the laws of the United States, the unsecured long-term debt obligations of which are rated "A3" or higher by Moody's or "A-" or higher by S&P, and issued, or in the case of banker's acceptance, accepted, by a bank or trust company having capital, surplus and undivided profits aggregating at least \$250,000,000;

(f) commercial paper given the highest rating by either S&P or Moody's maturing not more than 270 days from the date of creation thereof;

(g) mutual funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 that hold themselves out as "money market funds;"

(h) trade credit extended on usual and customary

terms in the ordinary course of business;

(i) advances to employees to meet expenses incurred by such employees in the ordinary course of business;

(j) Permitted Acquisitions; and

(k) other loans, advances and investments not exceeding in the aggregate \$2,000,000 at any one time outstanding.

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"Person": an individual, partnership, corporation, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"PNC": PNC Bank, National Association, a national banking association.

"Prime Rate": the rate of interest per annum announced from time to time by PNC as its prime rate in effect at its principal office in Philadelphia, Pennsylvania; each change in the Prime Rate shall be effective on the date such change is announced as effective.

"Property": any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Regulation X": Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official rulings and interpretations thereunder or thereof.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, except to the extent that notice thereof has been waived by the PBGC.

"Required Banks": at any time, (a) Banks the Exposures of which aggregate at least 51% of the Total Exposure at such time of the Banks, or (b) if there are no Loans outstanding, Banks whose Commitments aggregate at least 51% of the Total Commitment at such time.

"Requirement of Law": as to any Person, the Certificate of Incorporation, By-Laws, Operating Agreement or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer": as to any Borrower, any officer of such Borrower or of the manager of such Borrower.

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"Revolving Credit Loans": the revolving loans made by the Banks to the Borrower pursuant to Section 2.1(a). Each Loan shall be a Eurodollar Loan or a Base Rate Loan.

"Revolving Credit Note": a promissory note of the Borrower in the form of Exhibit B-1, as the same may be amended, supplemented or otherwise modified from time to time.

"S&P": Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Security": "security" as defined in Section 2(1) of the Securities Act of 1933, as amended.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Solvent": as to any Person, as of the time of determination, the financial condition under which the following conditions are satisfied:

(a) the fair market value of the assets of such Person will exceed the debts and liabilities, subordinated, contingent or otherwise, of such Person; and

(b) the present fair saleable value of the Property of such Person will be greater than the amount that will be required to pay the probable liability of such Person on its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; and

(c) such Person will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and

(d) such Person will not have unreasonably small capital with which to conduct the businesses in which it is engaged as such businesses are then conducted and are proposed to be conducted after the date thereof.

"Subordinated Debt": at any time, all Debt of the Borrower subordinated to all of the obligations of the Borrower to the Banks on terms satisfactory to the Banks.

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"Subsidiary": as to any Person, (i) any corporation, limited liability company, company or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock, interests, shares or similar items of beneficial interest normally entitled to vote for the election of one or more directors, managers or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such person or one or more of such Person's Subsidiaries, or any partnership of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, and (ii) any corporation, company, trust, partnership or other entity which is controlled or capable of being controlled by such Person or one or more of such Person's subsidiaries. Unless otherwise indicated, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary of the Borrower.

"Supplemental Indenture": means the 33rd Supplemental Indenture to the Indenture dated as of November 15, 1999.

"Swing Line Bank": PNC Bank, National Association, or any other Bank to which the Swing Line Commitment is assigned pursuant to the terms of Section 9.6.

"Swing Line Commitment": the amount set forth opposite the

Swing Line Bank's name under the heading "Swing Line Commitment" on Schedule I hereto, as such amount may be reduced pursuant to Section 2.2(f).

"Swing Line Loans": has the meaning given to such term in Section 2.2(a).

"Swing Line Note": has the meaning given to such term in Section 2.2(c), as the same may be amended, supplemented or otherwise modified from time to time.

"Swing Line Repayment Date": has the meaning given to such term in Section 2.2(b).

"Termination Date": December 20, 2000, or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d).

"Total Commitment": at any time, the aggregate amount of the Banks' Commitments, as in effect at such time.

"Total Commitment Percentage": as to any Bank at any time, the proportion (expressed as a percentage) that such Bank's Commitment bears to the Total Commitment.

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"Total Exposure": at any time, the aggregate amount of the Banks' Exposures at such time.

"Tranche": the collective reference to Eurodollar Loans whose Interest Periods begin on the same date and end on the same later date (whether or not such Loans originally were made on the same date).

"Type": when used in respect of any Revolving Credit Loan or Borrowing of Revolving Credit Loans, shall refer to the Rate by reference to which interest on such Revolving Credit Loan or on the Revolving Credit Loans comprising such Borrowing is determined. For purposes hereof, "Rate" shall include the Eurodollar Rate and the Base Rate.

"Voting Stock": capital stock of any class or classes of a corporation the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors (or Persons performing similar functions) and, as applicable, any equity, participation or ownership interests in any partnership, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture or any other Person which interests are similar by analogy to capital stock or ownership rights giving rise to voting or governance rights.

"Wholly-Owned Subsidiary": at any time, any Subsidiary one hundred percent (100%) of all of the equity Securities (except directors' qualifying shares) and voting Securities of which are owned by any one or more of the Borrower at such time.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

1.3 Construction. (a) Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular the plural and the part the whole, "or" has the inclusive meaning represented by the phrase "and/or," and "including" has the meaning represented by the phrase "including without limitation." References in this Agreement to "determination" of or by the Agent or the Banks shall be deemed to include good

faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good faith beliefs by the Agent or the Banks (in the case of qualitative determinations). Whenever the Agent or the Banks are granted the right herein to act in their sole discretion or to grant or withhold consent such right shall be exercised in good faith, except as otherwise

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provided herein. Except as otherwise expressly provided, all references herein to the "knowledge of" or "best knowledge of" the Borrower shall be deemed to refer to the knowledge of a Responsible Officer thereof. The words "hereof," "herein," "hereunder", "hereby" and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The section and other headings contained in this Agreement and the Table of Contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(b) Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters and all financial statements to be delivered pursuant to this Agreement shall be made and prepared in accordance with GAAP (including principles of consolidation where appropriate). As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Borrower and any Subsidiary thereof not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP. In the event that any future change in GAAP, without more, materially affects the Borrower's compliance with any financial covenant herein, the Borrower, the Banks and the Agent shall use their best efforts to modify such covenant in order to account for such change and to secure for the Banks the intended benefits of such covenant.

SECTION 2. THE CREDITS

2.1 Revolving Credit Loans. (a) Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make Revolving Credit Loans to the Borrower, at any time or from time to time on or after the date hereof and until the Termination Date or until the Commitment of such Bank shall have been terminated in accordance with the terms hereof, in an aggregate principal amount at any time outstanding which, when added to such Bank's Commitment Percentage of the principal amount of Swing Line Loans then outstanding does not exceed such Bank's Commitment subject, however, to the conditions that (i) at no time shall (x) the sum of the outstanding aggregate principal amount of all Loans made by all Banks exceed (y) the Total Commitment and (ii) at all times the outstanding aggregate principal amount of all Revolving Credit Loans required to be made by each Bank shall equal the product of (x) its Commitment Percentage times (y) the outstanding aggregate principal amount of all Revolving Credit Loans required to be made pursuant to subsection 2.1 at such time. Such Commitments may be terminated or reduced from time to time pursuant to Section 2.8. Within the foregoing limits, the Borrower may borrow, repay and reborrow under the Commitment on or after the date hereof and prior to the Termination Date, subject to the terms, provisions and limitations set forth herein.

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(b) Each Revolving Credit Loan shall be made as part of a Borrowing consisting of Revolving Credit Loans made by the Banks ratably in accordance with their Commitment Percentages; provided, however, that the failure of any Bank to make any Revolving Credit Loan shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make any Revolving Credit Loan required to be made by such other Bank). The Revolving Credit Loans comprising any Eurodollar Borrowing shall be in a minimum aggregate principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof (or an aggregate principal amount equal to the remaining balance of the available Commitments) and the Revolving Credit Loans comprising any Base Rate Borrowing shall be in a minimum aggregate principal amount of \$250,000 or a

whole multiple of \$50,000 in excess thereof (or an aggregate principal amount equal to the remaining balance of the available Commitments). Each Borrowing of Revolving Credit Loans shall be comprised entirely of Eurodollar Loans or Base Rate Loans, as the Borrower may request pursuant to Section 2.1.

(c) In order to request a Borrowing, the Borrower shall hand deliver or telecopy (or notify by telephone and promptly confirm by hand delivery or telecopy) to the Agent the information requested by the form of Borrowing Request attached as Exhibit A hereto (i) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., Philadelphia time, three Business Days before a proposed Borrowing and (ii) in the case of a Base Rate Borrowing, not later than 11:00 a.m., Philadelphia time, on the day of a proposed Borrowing. Such notice shall be irrevocable and shall in each case specify (x) whether the Borrowing then being requested is to be a Eurodollar Borrowing or a Base Rate Borrowing; (y) the date of such Borrowing (which shall be a Business Day) and the amount thereof; and (z) if such Borrowing is to be a Eurodollar Borrowing, the Interest Period with respect thereto. If no election as to the Type of Borrowing is specified in any such notice, then the requested Borrowing shall be a Base Rate Borrowing. If no Interest Period with respect to any Eurodollar Borrowing is specified in any such notice, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. The Agent shall promptly advise the Banks of any notice given pursuant to this Section 2.1 and of each Bank's portion of the requested Borrowing.

2.2 Swing Line Loans. (a) Subject to the terms and conditions hereof, the Swing Line Bank may in its discretion make swing line loans (the "Swing Line Loans") to the Borrower from time to time until the Termination Date or until the Swing Line Commitment is terminated in accordance with the terms hereof in the aggregate up to the amount of the Swing Line Commitment for periods requested by the Borrower and agreed to by the Swing Line Bank; provided, that, no Swing Line Loan shall be made if, after giving effect to the making of such Loan and the simultaneous application of the proceeds thereof, the Total Exposure would exceed the Total Commitment. Within the foregoing limits, the Borrower may borrow, repay and reborrow under the Swing Line Commitment, subject to and in accordance with the terms and limitations hereof.

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(b) The Borrower may request a Swing Line Loan to be made on any Business Day. Each request for a Swing Line Loan shall be in writing (or by telephone promptly confirmed in writing) and delivered to the Swing Line Bank not later than 12:00 noon, Philadelphia time, on the Business Day such Swing Line Loan is to be made, specifying in each case (i) the amount to be borrowed, (ii) the requested borrowing date, (iii) whether the interest rate applicable to such Swing Line Loan is to be: (A) the Federal Funds Effective Rate plus seventy five basis points (.75%) or (B) an interest rate mutually agreed upon by the Borrower and the Swing Line Bank and (iv) the date such Swing Line Loan is to be repaid (the "Swing Line Repayment Date"). The request for such Swing Line Loan shall be irrevocable. Provided that all applicable conditions precedent contained in Section 4.2 hereof have been satisfied, the Swing Line Bank shall, not later than 4:00 p.m., Philadelphia time, on the date specified in the Borrower's request for such Swing Line Loan, make such Swing Line Loan by crediting the Borrower's deposit account with the Swing Line Bank.

(c) The obligation of the Borrower to repay the Swing Line Loans shall be evidenced by a promissory note of the Borrower dated the date hereof, payable to the order of the Swing Line Bank in the principal amount of the Swing Line Commitment and substantially in the form of Exhibit B-2 (as amended, supplemented or otherwise modified from time to time, the "Swing Line Note").

(d) Interest shall accrue on the outstanding principal balance of a Swing Line Loan at the interest rate chosen by the Borrower in accordance with Section 2.2(b) with respect to such Swing Line Loan and shall be payable on each applicable Interest Payment Date and upon the repayment of such Swing Line Loan.

(e) A Swing Line Loan shall be repaid on the earlier of (i) the Termination Date and (ii) the Swing Line Repayment Date for such Swing Line Loan. Unless the Borrower shall have notified the Agent prior to 11:00

a.m., Philadelphia time, on such Swing Line Repayment Date that the Borrower intends to repay such Swing Line Loan with funds other than the proceeds of a Revolving Credit Loan, the Borrower shall be deemed to have given notice to the Agent requesting the Banks to make a Revolving Credit Loan which shall be a Base Rate Borrowing in accordance with Section 2.1 on the Swing Line Repayment Date in an aggregate amount equal to the amount of such Swing Line Loan plus interest thereon, and (A) subject to satisfaction or waiver of the conditions specified in Section 4.2, the Banks shall, on the Swing Line Repayment Date, make a Revolving Credit Loan which shall be a Base Rate Borrowing, in an aggregate amount equal to the amount of such Swing Line Loan plus interest thereon, the proceeds of which shall be applied directly by the Agent to repay the Swing Line Bank for such Swing Line Loan plus accrued interest thereon; and provided, further, that if for any reason the proceeds of such Base Rate Borrowing are not received by the Swing Line Bank on the Swing Line Repayment Date in an aggregate amount equal to the amount of such Swing Line Loan plus accrued interest, the Borrower shall reimburse the Swing Line Bank on the day immediately following the Swing Line Repayment Date, in same day funds, in an amount equal to the excess of the amount of such Swing Line Loan over the aggregate amount of such Base Rate Borrowing, if any, received plus accrued interest thereon.

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(f) In the event that the Borrower shall fail to repay the Swing Line Bank as provided in Section 2.2(e) in an amount equal to the amount required under Section 2.2(e), the Agent shall promptly notify each Bank of the unpaid amount of such Swing Line Loan and of such Bank's respective participation therein in an amount equal to such Bank's Commitment Percentage of such Swing Line Loan. Each Bank shall make available to the Agent for payment to the Swing Line Bank an amount equal to its respective participation therein (including without limitation its pro rata share of accrued but unpaid interest thereon), in same day funds, at the office of the Agent specified in such notice, not later than 11:00 a.m., Philadelphia time, on the Business Day after the date the Agent notifies each Bank. In the event that any Bank fails to make available to the Agent the amount of such Bank's participation in such unpaid amount as provided herein, the Swing Line Bank shall be entitled to recover such amount on demand from such Bank together with interest thereon at a rate per annum equal to the Base Rate for each day during the period between the Swing Line Repayment Date and the date on which such Bank makes available its participation in such unpaid amount. The failure of any Bank to make available to the Agent its pro rata share of any such unpaid amount shall not relieve any other Bank of its obligations hereunder to make available to the Agent its pro rata share of such unpaid amount on the Swing Line Repayment Date. The Agent shall distribute to each Bank which has paid all amounts payable by it under this Section 2.2(f) with respect to the unpaid amount of any Swing Line Loan, such Bank's Commitment Percentage of all payments received by the Agent from the Borrower in repayment of such Swing Line Loan when such payments are received. Notwithstanding anything to the contrary herein, each Bank which has paid all amounts payable by it under this Section 2.2(f) shall have a direct right to repayment of such amounts from the Borrower subject to the procedures for repaying Banks set forth in this Section 2.2.

(g) In the event the Commitments are terminated in accordance with Section 2.8 hereof, the Swing Line Commitment shall also be terminated automatically. In the event the Borrower reduces the Total Commitment to less than the Swing Line Commitment, the Swing Line Commitment shall immediately be reduced to an amount equal to the Total Commitment. In the event the Borrower reduces the Total Commitment to less than the outstanding principal amount of the Swing Line Loans, the Borrower shall immediately repay the amount by which the outstanding Swing Line Loans exceed the Swing Line Commitment as so reduced plus accrued interest thereon.

(h) At no time shall there be more than two outstanding Swing Line Loans.

(i) Each Swing Line Loan shall be in an original principal amount of \$100,000 or multiples of \$50,000 in excess thereof.

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(j) The Borrower shall have the right at any time and from

time to time to prepay any Swing Line Loan, in whole or in part, without premium or penalty, upon prior written, teletype or telephonic notice to the Swing Line Bank given no later than 1:00 p.m., Philadelphia time, on the date of any proposed prepayment. Each notice of prepayment shall specify the Swing Line Loan to be prepaid and the amount to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such amount on such date, with accrued interest thereon.

2.3 General Provisions Regarding Loans. Subject to Section 2.3(b), each Bank shall make each Revolving Credit Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds to the Agent in Philadelphia, Pennsylvania, not later than 1:00 p.m., Philadelphia time, and the Agent shall by 3:00 p.m., Philadelphia time, credit the amounts so received to the general deposit account of the Borrower with the Agent or, if a Borrowing shall not occur on such date because any condition precedent herein specified shall not have been met, return the amounts so received to the respective Banks. Loans shall be made by the Banks pro rata in accordance with Section 2.14. Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Agent such Bank's portion of such Borrowing, the Agent may assume that such Bank has made such portion available to the Agent on the date of such Borrowing in accordance with this paragraph (c) and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have made such portion available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent at (i) in the case of the Borrower, the interest rate applicable at the time to the Revolving Credit Loans comprising such Borrowing and (ii) in the case of such Bank, the Federal Funds Effective Rate. If such Bank shall repay to the Agent such corresponding amount, such amount shall constitute such Bank's Revolving Credit Loan as part of such Borrowing for purposes of this Agreement.

(b) The Borrower may refinance all or any part of any Borrowing with any other Borrowing, subject to the conditions and limitations set forth herein and elsewhere in this Agreement. Any Borrowing or part thereof so refinanced shall be deemed to be repaid in accordance with Section 2.5 with the proceeds of a new Borrowing hereunder and the proceeds of the new Borrowing, to the extent they do not exceed the principal amount of the Borrowing being refinanced, shall not be paid by the Banks to the Agent or by the Agent to the Borrower; provided, however, that (i) if the principal amount extended by a Bank in a refinancing is greater than the principal amount extended by such Bank in the Borrowing being refinanced, then such Bank shall pay such difference to the Agent for distribution to the Banks described in (ii) below, (ii) if the principal amount extended by a Bank in the Borrowing being refinanced is greater than the principal amount agreed to be extended by such Bank in the refinancing, the Agent shall return the difference to such Bank out of amounts received pursuant to (i) above, and (iii) to the extent any Bank fails to pay the Agent amounts due from it pursuant to (i) above, any Revolving Credit Loan or portion thereof being refinanced with such amounts shall not be deemed repaid in accordance with Section 2.5 and shall be payable by the Borrower without prejudice to the Borrower's rights against any such Bank.

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(c) Each Bank may at its option fulfill its commitment hereunder with respect to any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Bank to make such Revolving Credit Loan; provided, however, that (A) any exercise of such option shall not affect the obligation of the Borrower to repay such Revolving Credit Loan in accordance with the terms of the Agreement and the applicable Note and (B) the Borrower shall not be liable for increased costs under Sections 2.11 or 2.12 to the extent that (x) such costs could be avoided by the use of a different branch or Affiliate to make Eurodollar Loans and (y) such would not, in the judgment of such Bank, entail any significant additional expense for which such Bank shall not be indemnified hereunder or otherwise be disadvantageous to it; and

(d) All Borrowings, conversions and continuations of Revolving Credit Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections that, after giving effect thereto, (A) the aggregate principal amount of the Revolving Credit Loans comprising each Tranche of Eurodollar Loans shall be equal to \$500,000 or a whole multiple of \$100,000 in excess thereof and (B) the Borrower

shall not have outstanding at any one time more than in the aggregate five (5) separate Tranches of Eurodollar Loans.

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Termination Date.

2.4 Fees. (a) The Borrower shall pay to each Bank, through the Agent, on the Closing Date a closing fee (the "Closing Fee") equal to eight basis points (.08%) on the amount of such Bank's initial Commitment.

(b) The Borrower agrees to pay to each Bank, through the Agent, on each April 30, July 31, October 31 and January 31 and on the date on which the Commitment of such Bank shall be terminated as provided herein, a Facility Fee (a "Facility Fee") at a rate per annum equal to ten basis points (.10%) on the average daily amount of the Commitment of such Bank during the preceding quarter (or shorter period commencing with the date hereof or ending with the Termination Date or any date on which the Commitment of such Bank shall be terminated). All Facility Fees shall be computed on the basis of the actual number of days elapsed over a year of 360 days. The Facility Fee due to each Bank shall commence to accrue on the date hereof, and shall cease to accrue on the earlier of the Termination Date and the termination of the Commitment of such Bank as provided herein.

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(c) The Borrower agrees to pay to the Agent for its own account administrative and other fees at the times and in the amounts as are set forth in the Fee Letter (collectively, the "Administrative Fees").

(d) All Fees shall be paid on the dates due, in immediately available funds, to the Agent for distribution, if and as appropriate, among the Banks. Once paid, none of the Fees shall be refundable under any circumstances.

2.5 Revolving Credit Notes; Repayment of Revolving Credit Loans. The Revolving Credit Loans made by each Bank shall be evidenced by a single Revolving Credit Note duly executed on behalf of the Borrower, dated the Closing Date, in substantially the form attached hereto as Exhibit B-1 with the blanks appropriately filled, payable to such Bank in a principal amount equal to the Commitment of such Bank. Each Revolving Credit Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.6. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to the relevant Revolving Credit Note held by such Bank (or on a continuation of such schedule attached to each such Revolving Credit Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of each Revolving Credit Loan of such Bank, each payment or prepayment of principal of any Revolving Credit Loan, and the other information provided for on such schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Borrower to repay the Revolving Credit Loans made by such Bank in accordance with the terms of the relevant Revolving Credit Note. The outstanding principal balance of each Revolving Credit Loan, as evidenced by the relevant Revolving Credit Note, shall be payable on the Termination Date.

2.6 Interest on Revolving Credit Loans. (a) Subject to the provisions of Section 2.7, each Base Rate Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 365 or 366 days, as the case may be) at a rate per annum equal to the Base Rate.

(b) Subject to the provisions of Section 2.7, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Loan plus twenty two and one-half basis points (.225%).

(c) Interest on each Revolving Credit Loan shall be payable on each Interest Payment Date applicable to such Revolving Credit Loan; provided that, interest accruing on overdue amounts pursuant to Section 2.7

shall be payable on demand as provided in the Revolving Credit Notes. The Eurodollar Rate and the Base Rate shall be determined by the Agent, and such determination shall be conclusive absent error.

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2.7 Default Rate; Additional Interest; Alternate Rate of Interest. (a) To the extent not contrary to any Requirement of Law, upon the occurrence and during the continuation of an Event of Default, any principal, past due interest, fee or other amount outstanding hereunder shall, at the option of the Required Banks, bear interest for each day thereafter until paid in full (after as well as before judgment) at a rate per annum which shall be equal to two percent (2%) above the Base Rate (but in no event shall any such rate exceed the maximum rate permitted by any Requirement of Law). The Borrower acknowledges that such increased interest rate reflects, among other things, the fact that such loans or other amounts have become a substantially greater risk given their default status and that the Banks are entitled to additional compensation for such risk.

(b) In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a Eurodollar Loan, the Agent shall have determined (which determination absent manifest error shall be conclusive and binding upon the Borrower) that dollar deposits in the principal amount of such Eurodollar Loan are not generally available in the London Interbank Market, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to the Banks of making or maintaining the principal amount of such Eurodollar Loan during such Interest Period, or that reasonable means do not exist for ascertaining the Eurodollar Rate, the Agent shall, as soon as practicable thereafter, give written, telegraphic or telephonic notice of such determination to the Borrower and the Banks, and any request by the Borrower for a Eurodollar Loan or for conversion to or maintenance of a Eurodollar Loan pursuant to the terms of this Agreement shall be deemed a request for a Base Rate Loan. After such notice shall have been given and until the circumstances giving rise to such notice no longer exist, each request for a Eurodollar Loan shall be deemed to be a request for a Base Rate Loan. Each determination by the Agent hereunder shall be conclusive absent manifest error.

2.8 Termination, Reduction, Extension of Commitments; Additional Banks. (a) The Commitments shall be automatically terminated on the Termination Date.

(b) Subject to the last sentence of this paragraph, upon at least three Business Days' prior irrevocable written or telecopy notice to the Agent, the Borrower may at any time in whole permanently terminate, or from time to time permanently reduce, the Total Commitment. Each partial reduction of the Total Commitment shall be in a minimum principal amount of \$1,000,000 or in whole multiples of \$500,000 in excess thereof, and no such termination or reduction shall be made which would reduce the Total Commitment to an amount less than the aggregate outstanding principal amount of the Loans.

(c) Each reduction in the Total Commitment hereunder shall be made ratably among the Banks in accordance with their respective Commitment Percentages. In connection with any reduction of the Total Commitment, the Borrower shall make any prepayment required under subsection 2.9(b).

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(d) During the period beginning ninety days prior to the Termination Date then in effect and ending sixty days prior to such Termination Date, the Borrower may deliver to the Agent (which shall promptly transmit to each Bank) a notice requesting that the Commitments be extended for a 364 day period beyond the Termination Date then in effect. Within thirty days after its receipt of any such notice, each Bank shall notify the Agent of its willingness or unwillingness so to extend its Commitment. Any Bank that shall fail so to notify the Agent within such period shall be deemed to have declined to extend its Commitment. If each (but only if each) Bank agrees to extend its Commitment, the Agent shall so notify the Company and each Bank, whereupon (i) the respective Commitments of the Banks shall without further act by any party hereto, be extended for a 364 day period beyond the Termination Date then in

effect and (ii) the term "Termination Date" shall thereafter mean the last day of such period. Any such extension shall be evidenced by a written agreement among the Agent, the Banks and the Borrower, such agreement to be in form and substance acceptable to the Agent, the Banks and the Borrower. In the event that one or more Banks (each a "Non-Electing Bank") shall have declined or been deemed to have declined to extend its or their Commitment and Banks holding a majority in amount of the Commitments shall have notified the Agent of their desire to extend their Commitments, the Borrower shall have the right, but not the obligation, at its own expense, upon notice to each such Non-Electing Bank and the Agent, to replace all (but not less than all) such Non-Electing Banks (in accordance with and subject to the restrictions contained in Section 9.6) at any time before the twentieth (20th) day prior to the Termination Date with one or more assignees (each a "Replacement Bank") willing to purchase the Non-Electing Banks' interests hereunder and to agree to extend its or their Commitment in accordance with the notice referred to in the first sentence of this clause (d). In such event, each Non-Electing Bank shall promptly upon request transfer and assign without recourse (in accordance with and subject to the restrictions contained in Section 9.6) all its interests, rights and obligations under this Agreement to the applicable Replacement Bank; provided, however, that (i) no such assignment shall conflict with any law or any rule, regulation or order of any Governmental Authority, (ii) the applicable Replacement Bank shall pay to the applicable Non-Electing Bank in immediately available funds on the date of such assignment the principal of and interest accrued to the date of payment on the Loans made by such Non-Electing Bank hereunder and all other amounts accrued for such Non-Electing Bank's account or owed to it hereunder (including any unpaid costs or expenses), and (iii) a Non-Electing Bank shall not be required to sell its interests hereunder unless the Borrower has arranged for one or more Replacement Banks to acquire the interests of all other Non-Electing Banks. If, as a result of the foregoing, each Bank (including Replacement Banks, but excluding Non-Electing Banks whose interests have been purchased as provided above) has agreed to extend its Commitment, the Commitments shall be extended as provided in clause (i) of the fourth sentence of this paragraph and the term Termination Date shall have the meaning set forth in clause (ii) in such fourth sentence of this clause (d).

(e) Any bank or financial institution becoming a party to this Agreement in compliance with the provisions of subsection 2.8(d) hereof shall execute and deliver to the Agent and the Banks and the Borrower a joinder and assumption agreement in form and substance satisfactory to the Agent. Upon execution and delivery of such joinder such additional bank or financial institution shall be a party hereto and one of the Banks hereunder for all purposes, all as of the date of such joinder. Simultaneously therewith the Borrower shall execute and deliver to such additional Bank an additional Note to the order of such additional Bank in an amount equal to the Commitment assumed by such additional Bank.

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2.9 Optional and Mandatory Prepayments of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing, in whole or in part, without premium or penalty (but in any event subject to Section 2.13), upon prior written, telecopy or telephonic notice to the Agent given no later than 11:00 a.m., Philadelphia time, one Business Day before any proposed prepayment; provided, however, that each such partial prepayment of a Eurodollar Borrowing shall be in the principal amount of at least \$500,000 or in whole multiples of \$100,000 in excess thereof and each such partial prepayment of a Base Rate Borrowing shall be in the principal amount of at least \$250,000 or in whole multiples of \$50,000 in excess thereof.

(b) On the date of any termination or reduction of the Total Commitment pursuant to Section 2.8, the Borrower shall pay or prepay so much of the Borrowings as shall be necessary in order that the aggregate principal amount of the Loans then outstanding will not exceed the Total Commitment after giving effect to such termination or reduction.

(c) Each notice of prepayment shall specify the prepayment date and the principal amount of each Borrowing to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Borrowing (or portion thereof) by the amount stated therein. All prepayments under this Section on other than Base Rate Borrowings shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

2.10 Illegality. Notwithstanding any other provision herein, if any change in any Requirement of Law or in the interpretation or application

thereof shall make it unlawful for any Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Bank hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert or refinance Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) such Bank's Revolving Credit Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Revolving Credit Loans or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Bank such amounts, if any, as may be required pursuant to Section 2.13.

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2.11 Requirements of Law. (a) In the event that any change in any Requirement of Law or in the interpretation, or application thereof or compliance by any Bank with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Bank to any tax of any kind whatsoever with respect to this Agreement, any Note or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Bank in respect thereof (except for taxes covered by Section 2.12 and changes in the rate of tax on the overall net income, gross receipts or revenue of such Bank);

(ii) shall impose, modify or hold applicable any reserve, special deposit or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Bank which is not otherwise included in the determination of the interest rate on such Eurodollar Loan hereunder; or

(iii) shall impose on such Bank any other condition;

and the result of any of the foregoing is to increase the cost to such Bank, by an amount which such Bank reasonably deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof then, in any such case, the Borrower shall as promptly as practicable pay such Bank, upon its demand, any additional amounts necessary to compensate such Bank for such increased cost or reduced amount receivable; provided, that the Borrower shall not be liable for any such amounts incurred by such Bank more than 180 days prior to the date of such Bank's notification to the Borrower. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as practicable notify the Borrower, through the Agent, of the event by reason of which it has become so entitled. A certificate describing in reasonable detail the determination of any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder. If any amount is refunded to such Bank, such Bank will reimburse Borrower for amounts paid in respect of the refunded amount.

(b) In the event that any Bank shall have determined that any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Bank or any corporation controlling such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Bank's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Bank or such corporation could have

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achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an

amount reasonably deemed by such Bank to be material, then from time to time, after submission as promptly as practicable by such Bank to the Borrower (with a copy to the Agent) of a written request therefor, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(c) Each Bank agrees that it will use reasonable efforts in order to avoid or to minimize, as the case may be, the payment by the Borrower of any additional amount under subsections 2.11(a) and (b); provided, however, that no Bank shall be obligated to incur any expense, cost or other amount in connection with utilizing such reasonable efforts. Notwithstanding any other provision of this Section 2.11, no Bank shall apply the provisions of subsections 2.11(a) or (b) hereof with respect to the Borrower if it shall not at the time be the general policy or practice of the Bank exercising its rights hereunder to apply the provisions similar to those of this Section 2.11 to other Borrower in substantially similar circumstances under substantially comparable provisions of other credit agreements.

2.12 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding, in the case of the Agent and each Bank, net income taxes and franchise or gross receipts taxes (imposed in lieu of net income taxes) imposed on the Agent or such Bank, as the case may be, as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Agent or such Bank or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). Except as provided in Section 2.12(c) and the penultimate sentence of this Section 2.12(a), if any Taxes are required to be withheld from any amounts payable to the Agent or any Bank hereunder or under the Notes, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Agent for its own account or for the account of such Bank, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fail to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure. If as a result of a payment by the Borrower of Taxes pursuant to this subsection a Bank receives a tax benefit or tax savings such as by receiving a credit against, refund of, or reduction in Taxes which such Bank would not have received but for the payment by the Borrower of Taxes pursuant to this subsection, then such Bank shall promptly pay to the Borrower the amount of such credit, refund, reduction or any other similar item. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

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(b) Each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224 or successor applicable form, as the case may be, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form. Each such Bank also agrees to deliver to the Borrower and the Agent two further copies of the said Form 1001 or 4224 and Form W-8 or W-9, or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank so advises the Borrower and the Agent. Such Bank shall certify (i) in the case of a Form 1001 or 4224, that it is entitled to receive

payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Bank shall deliver to the Borrower and the Agent, with respect to Taxes imposed by any Governmental Authority other than the United States of America, similar forms, if available (or the information that would be contained in similar forms if such forms were available), to the forms which are required to be provided under this subsection with respect to Taxes of the United States of America.

(c) The Borrower shall not be required to pay any additional amounts to the Agent or any Bank in respect of payments of United States withholding tax or other Taxes made by the Borrower which are consistent with the forms and information delivered to the Borrower and the Agent or if the payment of such amounts would not have arisen but for a failure by the Agent or such Bank to comply with the requirements of subsection 2.12(b) or the Agent or such Bank did not timely deliver to the Borrower the forms listed or described in subsection 2.12(b) or did not take such other steps as reasonably may be available to it under applicable tax laws and any applicable tax treaty or convention to obtain an exemption from, or reduction (to the lowest applicable rate) of, such United States withholding tax and other Taxes or, if such steps were taken, the information was not timely and duly delivered to Borrower.

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2.13 Indemnity. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from any loss or expense which such Bank may sustain or incur as a consequence of (a) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loan, (b) default by the Borrower in making a borrowing of, conversion into or continuation of Eurodollar Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (c) default by the Borrower in making any prepayment after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (d) the making of a prepayment of Eurodollar Loans on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

2.14 Pro Rata Treatment, etc. Except as required under Sections 2.2 and 2.10, each Borrowing, each payment or prepayment of principal of any Borrowing, each payment of interest on the Loans, each reduction of the Commitments, each refinancing of any Borrowing with a Borrowing of any Type and each conversion of Loans, shall be made pro rata among the Banks in accordance with their respective Commitment Percentages. Each Bank agrees that in computing such Bank's portion of any Borrowing to be made hereunder, the Agent may, in its discretion, round each Bank's percentage of such Borrowing to the next higher or lower whole dollar amount.

2.15 Payments. (a) The Borrower shall make each payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder not later than 12:00 (noon), Philadelphia time, on the date when due in Dollars to the Agent at its offices at 1600 Market Street, Philadelphia, Pennsylvania, or at such other place as may be designated by the Agent, in immediately available funds.

(b) Whenever any payment (including principal of or interest on any Loan or any Fees or other amounts) hereunder shall become due, or otherwise would occur, on a day that is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest or Fees, if applicable.

2.16 Conversion and Continuation Options. The Borrower shall have the right at any time upon prior irrevocable notice to the Agent (i) not later than 11:00 a.m., Philadelphia time, on the Business Day of conversion, to convert any Eurodollar Loan to a Base Rate Loan, (ii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion or continuation, (y) to convert any Base Rate Loan into a Eurodollar Loan, or (z) to continue any Eurodollar Loan as a Eurodollar Loan for any additional Interest Period, and (iii) not later than 11:00 a.m., Philadelphia time, three Business Days prior to conversion, to convert the Interest Period with respect to any Eurodollar Loan to another permissible Interest Period, subject in each case to the following:

(a) a Eurodollar Loan may not be converted at a time other than the last day of the Interest Period applicable thereto;

(b) any portion of a Revolving Credit Loan maturing or required to be repaid in less than one month may not be converted into or continued as a Eurodollar Loan;

(c) no Eurodollar Loan may be continued as such and no Base Rate Loan may be converted to a Eurodollar Loan when any Default or Event of Default has occurred and is continuing;

(d) any portion of a Eurodollar Loan that cannot be converted into or continued as a Eurodollar Loan by reason of paragraph 2.16(b) or 2.16(c) automatically shall be converted at the end of the Interest Period in effect for such Revolving Credit Loan to a Base Rate Loan;

(e) if by the third Business Day prior to the last day of any Interest Period for Eurodollar Loans, the Borrower has failed to give notice of conversion or continuation as described in this subsection, the Agent shall give notice thereof to the Banks and such Revolving Credit Loans shall be automatically converted to Base Rate Loans on the last day of such then expiring Interest Period; and

(f) each request by the Borrower to convert or continue a Revolving Credit Loan shall constitute a representation and warranty that each of the representations and warranties made by the Borrower herein is true and correct in all material respects on and as of such date as if made on and as of such date.

Accrued interest on a Revolving Credit Loan (or portion thereof) being converted shall be paid by the Borrower at the time of conversion.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Banks to enter into this Agreement, and to make the Loans, the Borrower hereby represents and warrants to the Agent and each Bank that:

3.1 Financial Condition. (a) The audited consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 1998 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, and the consolidated balance sheet as at September 30, 1999 and the statements of income and cash flow of the Borrower and its Subsidiaries for the nine month period ended September 30, 1999, copies of all of which have heretofore been furnished to each Bank, present fairly the consolidated financial condition of the Borrower as at such dates, and the consolidated results of its operations and its consolidated cash flows for the periods covered thereby.

All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved. Neither the Borrower nor any of its Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Contingent Obligation, liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is required by GAAP to be but is not reflected in the foregoing statements or in the notes thereto.

(b) (i) As of the Closing Date and after giving effect to this Agreement and any Loans to be made on the Closing Date, the Borrower is Solvent.

(ii) The Borrower does not intend to incur debts beyond its ability to pay such debts as they mature, taking into account the

timing of and amounts of cash to be received by it and the timing of the amounts of cash to be payable on or in respect of its Debt.

3.2 No Adverse Change. Since December 31, 1998, there has been no development or event which has had a Material Adverse Effect.

3.3 Existence; Compliance with Law. The Borrower (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the corporate power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign entity and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent that the failure to be so qualified would not, in the aggregate, have a Material Adverse Effect and (d) is in compliance with all Requirements of Law the non-compliance with which would have a Material Adverse Effect.

3.4 Corporate Power; Authorization; Enforceable Obligations. The Borrower has the corporate power, authority, and legal right, to make, deliver and perform this Agreement, the Notes and the other Loan Documents to which it is a party and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and the Notes and to authorize the execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which it is a party. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person (including stockholders and creditors of the Borrower) is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes or the other Loan Documents. This Agreement has been, and each Note and other Loan Document will be, duly executed and delivered on behalf of the Borrower. This Agreement constitutes, and each Note and other Loan Document when executed and delivered will constitute, a legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

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3.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Notes and the other Loan Documents by the Borrower, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or of any of the Subsidiaries and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

3.6 No Material Litigation Except as set forth on Schedule 3.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened against the Borrower or against any of the properties or revenues of the Borrower or against any Plan (a) with respect to this Agreement, the Notes or the other Loan Documents or any of the transactions contemplated hereby, or (b) as to which there is a reasonable likelihood of an adverse determination and which, if adversely determined, would have a Material Adverse Effect.

3.7 No Default. The Borrower is not in default under or with respect to any of its Contractual Obligations, including without limitation, those under the Indenture in any respect which would have a Material Adverse Effect. No Event of Default has occurred and is continuing.

3.8 Taxes. The Borrower has filed or caused to be filed all tax returns which are required to be filed (or has obtained authorized extensions for such filings) and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the Borrower, as the case may be); no material tax Lien has been filed against the Borrower, and, to the knowledge of the Borrower, no claim is being

asserted, with respect to any such tax, fee or other charges.

3.9 Federal Regulations No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U or for any purpose which violates the provisions of Regulation U. If requested by any Bank or the Agent, the Borrower will furnish to the Agent and each Bank a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U. No part of the proceeds of the Loans hereunder will be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X.

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3.10 ERISA (a) Each Plan has complied in all respects with the applicable provisions of ERISA and the Code, except to the extent that failure to so comply would not have a Material Adverse Effect. No prohibited transaction or accumulated funding deficiency (each as defined in subsection 7(h)) or Reportable Event has occurred with respect to any Single Employer Plan which would have a Material Adverse Effect, except as disclosed on Schedule 3.10.

(b) The present value of all accrued benefits under each Single Employer Plan maintained by the Borrower or a Commonly Controlled Entity (based on those assumptions used to fund the Plans), as calculated on a termination basis, did not, as of the last annual valuation date, exceed the value of the assets of the Plans allocable to such benefits by an amount which exceeds \$1,000,000 or which would have a Material Adverse Effect.

(c) Neither the Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan for which any liability remains unsatisfied which would exceed \$500,000 or which, together with liabilities referred in subsections (b) and (d) hereof, would exceed \$1,000,000 or which in either event would have a Material Adverse Effect, and neither the Borrower nor any Commonly Controlled Entity would become subject under ERISA to any liability which would exceed \$250,000 or which, together with other liabilities referred in subsections (b) and (d) hereof or this subsection (c), would exceed \$500,000 or which in either event would have a Material Adverse Effect if the Borrower or such Commonly Controlled Entity were to withdraw completely from any Multiemployer Plan as of the valuation date most closely preceding the date this representation is made or deemed made. To the best of the Borrower's knowledge, such Multiemployer Plans are neither in Reorganization as defined in Section 4241 of ERISA nor Insolvent.

(d) The present value (determined using actuarial and other assumptions which are reasonable in respect of the benefits provided and the employees participating) of the liability of the Borrower and each Commonly Controlled Entity for post-retirement benefits to be provided to their current and former employees under Plans which are welfare benefit plans (as defined in Section 3(1) of ERISA) does not, in the aggregate, exceed the assets under all such Plans allocable to such benefits by an amount (i) which exceeds the amount being recovered by the Borrower to cover such deficiency amortized over a twenty year period as part of its revenue requirement as most recently approved by the Pennsylvania Public Utility Commission or (ii) which together with liabilities referred to in subsections (b) and (c) hereof would have a Material Adverse Effect.

3.11 Investment Company Act; Public Utility Holding Company Act Except as set forth on Schedule 3.11, the Borrower is not (a) an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended; (b) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of

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the Public Utility Holding Company Act of 1935, as amended, or (c) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

3.12 Purpose of Loans The proceeds of the Loans shall be used by the Borrower for refinancing existing indebtedness of the Borrower and the Borrower's general working capital purposes including the financing of Permitted

Acquisitions.

3.13 Environmental Matters To the best knowledge of the Borrower, except as may be disclosed on Schedule 3.13 and except to the extent that the aggregate cost of any remediation or other expense to the Borrower as a consequence of the failure of any of the following representations to be true and correct does not exceed \$1,000,000, each of the representations and warranties set forth in paragraphs (a) through (e) of this subsection is true and correct with respect to each parcel of real property owned or operated by the Borrower (the "Properties"):

(a) the Properties do not contain, and have not previously contained, in, on, or under, including, without limitation, the soil and groundwater thereunder, any Materials of Environmental Concern in concentrations which violate Environmental Laws;

(b) the Properties and all operations and facilities at the Properties are in compliance with Environmental Laws in all material respects, and there is no Materials of Environmental Concern contamination or violation of any Environmental Law which would materially interfere with the continued operation of any of the Properties or materially impair the fair saleable value of any thereof;

(c) the Borrower has not received any written complaint, notice of violation, alleged violation, investigation or advisory action or of potential liability or of potential responsibility regarding a violation of Environmental Law or permit compliance with regard to the Properties, nor is the Borrower aware that any Governmental Authority is contemplating delivering to the Borrower any such notice;

(d) Materials of Environmental Concern have not been generated, treated, stored, disposed of, at, on or under any of the Properties, nor have any Materials of Environmental Concern been transferred from the Properties to any other location except in either case in the ordinary course of business of the Borrower and in material compliance with all Environmental Laws; and

(e) there are no governmental, administrative actions or judicial proceedings pending or contemplated under any Environmental Laws to which the Borrower or any of its Subsidiaries is or will be named as a party with respect to the Properties, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to any of the Properties.

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3.14 Ownership of the Borrower As of the Closing Date the Borrower is a wholly-owned Subsidiary of the Parent Company.

3.15 Patents, Trademarks, etc The Borrower has obtained and holds in full force and effects all patents, trademarks, servicemarks, trade names, copyrights or licenses therefor and other such rights, free from burdensome restrictions, which are necessary for the operation of its business as presently conducted. To the Borrower's best knowledge, no material product, process, method, substance, part or other material presently sold by or employed by the Borrower in connection with such business infringes any patent, trademark, service mark, trade name, copyright, license or other right owned by any other Person so as to have a Material Adverse Effect. There is not pending or, to the Borrower's knowledge, threatened any claim or litigation against or affecting the Borrower contesting its right to sell or use any such product, process, method, substance, part or other material.

3.16 Ownership of Property The Borrower has good and marketable fee simple title to or valid leasehold interests in all real property owned or leased by the Borrower (except in the case of certain properties not material to its business as to which its title was obtained by quit-claim or special warranty deed), and good title to all of its personal property subject to no Lien of any kind except Liens permitted hereby. The Borrower enjoys peaceful and undisturbed possession under all of its respective material leases.

3.17 Licenses, etc. The Borrower has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, easements, rights of way and other rights,

consents and approvals which are necessary for the operation of its business as presently conducted.

3.18 No Burdensome Restrictions. The Borrower is not a party to any agreement or instrument or subject to any other Contractual Obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, to the best of the Borrower's knowledge, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

3.19 Labor Matters. The Borrower has not suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years and to the best of the Borrower's knowledge, there are none now threatened.

3.20 Partnerships. Except as disclosed on Schedule 3.20, as of the Closing Date, the Borrower is not a partner in any partnership or in any joint venture.

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3.21 No Material Misstatements. To the best of the Borrower's knowledge, no information, report, financial statement, exhibit or schedule furnished by or on behalf of the Borrower to the Agent or any Bank in connection with the negotiation of this Agreement or any Note or other Loan Document or included therein contains any misstatement of fact, or omitted or omits to state any fact necessary to make the statements therein not misleading, where such misstatement or omission would in the Borrower's judgment be material to the interests of the Banks with respect to the Borrower's performance of its obligations hereunder.

3.22 Year 2000 Compliance. The Borrower has reviewed the areas within its business and operations which could be adversely affected by, and has developed or is developing a program to address on a timely basis, the risk that certain computer applications used by the Borrower may be unable to recognize and perform properly date-sensitive functions involving dates prior to and after December 31, 1999 (the "Year 2000 Problem"). The Year 2000 Problem will not result in any Material Adverse Effect.

All of the foregoing representations and warranties shall survive the execution and delivery of the Notes and the making by the Banks of the Loans hereunder.

SECTION 4 CONDITIONS PRECEDENT; CLOSING

4.1 Conditions to Closing. The agreement of each Bank to enter into this Agreement and make its initial Loan hereunder is subject to the satisfaction, immediately prior to or concurrently with such Loans, of the following conditions precedent:

(a) Loan Documents. The Agent shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, with a counterpart for each Bank, (ii) for the account of each Bank, a Revolving Credit Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower and (iii) for the account of the Swing Line Bank, the Swing Line Note conforming to the requirements hereof and executed by a duly authorized officer of the Borrower.

(b) Corporate Proceedings of the Borrower. The Agent shall have received a copy of the resolutions or other corporate proceedings or action, in form and substance satisfactory to the Agent, taken on behalf of the Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which it is a party, and (ii) the borrowings contemplated hereunder, certified by a Responsible Officer of the Borrower as of the Closing Date, which certificate shall state that such resolutions, or other proceedings or action thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance satisfactory to the Agent.

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(c) Representations and Warranties True; No Default. The representations and warranties of the Borrower contained in Section 3 hereof shall be true and accurate on and as of the Closing Date in all material respects with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and the Borrower shall have performed and complied with all covenants and conditions hereof; and no Event of Default or Default under this Agreement shall have occurred and be continuing or shall exist.

(d) Corporate Documents. The Agent shall have received, with a counterpart for each Bank, true and complete copies of (i) the articles of incorporation and bylaws of the Borrower, certified as of the Closing Date as complete and correct copies thereof by a Responsible Officer of the Borrower; and (ii) good standing certificates issued by the Secretaries of State (or the equivalent thereof) of each state in which the Borrower has been formed or is required to be qualified to transact business no earlier than thirty days prior to the Closing Date.

(e) Incumbency. The Agent shall have received a written certificate dated the Closing Date by a Responsible Officer of the Borrower as to the names and signatures of the officers of the Borrower authorized to sign this Agreement and the other Loan Documents. The Agent may conclusively rely on such certificate until it shall receive a further certificate by a Responsible Officer of the Borrower amending such prior certificate.

(f) Indenture. The Agent shall have received, with a counterpart for each Bank, true and complete copies of the Indenture and the Supplemental Indenture.

(g) Fees. The Borrower shall have paid or caused to be paid to the Agent (i) all Fees then due hereunder and (ii) all other fees and expenses due and payable hereunder on or before the Closing Date (if then invoiced), including without limitation the reasonable fees and expenses of counsel to the Agent.

(h) Legal Opinion. The Agent shall have received, with a counterpart for each Bank, the executed legal opinion of the Senior Vice President - Law and Administration of the Borrower, addressed to the Banks and satisfactory in form and substance to the Agent and its counsel covering such matters incident to the transactions contemplated by this Agreement as the Agent may reasonably require. The Borrower hereby directs such counsel to deliver such opinion, upon which the Banks and the Agent may rely.

(i) No Material Adverse Change. There shall be no material adverse change in the business, operations, Property, prospects or financial or other condition of the Borrower nor any material change in the management of the Borrower or an event which would cause or constitute a Material Adverse Effect; and there shall be delivered to the Agent for the benefit of each Bank a certificate dated the Closing Date and signed on behalf of the Borrower by a Responsible Officer to each such effect.

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(j) No Litigation. No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of this Agreement or the consummation of the transactions contemplated hereby or which, in the Agent's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Agreement.

(k) Evidence of Insurance. The Borrower shall have provided to each of the Banks copies of the evidence of insurance required by subsection 5.5(b).

(l) Existing Indebtedness. The existing loans owed the Borrower pursuant to a Revolving Credit Agreement by and among the Borrower, the banks party thereto and Mellon Bank, N.A., as Agent, dated as of March 17, 1994, shall have been repaid in full or arrangements satisfactory to the Agent shall exist for the repayment thereof from the proceeds of the initial Loans

hereunder, and the commitments thereunder terminated.

(m) Evidence of Regulatory Approval. The Borrower shall have provided to the Agent a copy of each and every authorization, permit, consent, and approval of and other actions by, and notice to and filing with, every Governmental Authority which is required to be obtained or made by the Borrower for the due execution, delivery and performance of this Agreement and the other Loan Documents, if any.

(n) Additional Documents. The Agent shall have received such additional documents, certificates and information as the Agent may require pursuant to the hereof or as the Agent may otherwise reasonably request.

4.2 Conditions to Each Loan. The agreement of each Bank to make any Loan requested to be made by it on any date (including, without limitation, the first such Loan hereunder) is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrower herein or which are contained in any certificate, document or financial or other statement furnished at any time under or in connection herewith or therewith shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Loans requested to be made or the Letter of Credit is to be issued on such date.

(c) No Contravention of Law. The making of the Loans or the issuance of the Letter of Credit shall not contravene any Requirement of Law applicable to the Borrower or any of the Banks.

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Each borrowing by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such Loan that the conditions contained in this Section 4.2 have been satisfied.

4.3 Closing. The closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Ballard Spahr Andrews & Ingersoll, LLP, commencing at 10:00 a.m., Philadelphia time, on December 22, 1999 or such other place or date as to which the Agent, the Banks and the Borrower shall agree. The date on which the Closing shall be completed is referred to herein as the "Closing Date".

SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note remains outstanding and unpaid, any Letter of Credit remains outstanding or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall:

5.1 Financial Statements. Furnish to each Bank (i) within 45 days after the end of each of the first three fiscal quarters of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each such fiscal quarter and statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 90 days after the end of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each fiscal year and statements of income, statements of retained earnings and cash flow for such fiscal year. All financial statements will be prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved and with the prior periods, such annual financial statements to be certified by independent certified public accountants selected by the Borrower and reasonably acceptable to the Agent, without any exception or qualification arising out of the restricted or limited nature of the examination made by such accountants.

5.2 Certificates; Other Information. Furnish to each Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 5.1, a certificate on behalf of the Borrower executed by a Responsible Officer, (i) showing in detail the

calculations supporting such statements in respect of Section 6.1; and (ii) stating that, to the best of his or her knowledge, the Borrower during such period has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement and in the Notes and the other Loan Documents applicable to it and that he or she obtained no knowledge of any Default or Event of Default except as specifically indicated;

(b) on or prior to February 15 of each fiscal year, a budgeted balance sheet, income statement and statement of cash flow for the current fiscal year; and

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(c) promptly, such additional financial and other information as any Bank or the Agent may from time to time reasonably request.

5.3 Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its obligations of whatever nature, except (x) in the case of indebtedness other than that described in subsection 7.1(f), when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or (y) where the failure so to pay such indebtedness is in the normal course of the Borrower's business as now conducted and would not have a Material Adverse Effect.

5.4 Conduct of Business and Maintenance of Existence. Subject to Section 6.4 hereof, continue to engage in business of the same general type as now conducted by it and, except to the extent that failure to do so would not have a Material Adverse Effect, preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges, trademarks, trade names, licenses, franchises and other authorizations necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith would not reasonably be expected to have, in the aggregate, a Material Adverse Effect.

5.5 Maintenance of Property; Insurance. (a) Maintain in good repair, working order and condition (ordinary wear and tear excepted) in accordance with the general practice of other businesses of similar character and size, all of those properties material or necessary to its business, and from time to time make or cause to be made all appropriate repairs, renewals or replacements thereof.

(b) Insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured (including fire, extended coverage, property damage, worker's compensation, public liability and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary. The Borrower shall deliver at the request of the Agent from time to time a summary schedule indicating all insurance then in force with respect to the Borrower.

5.6 Inspection of Property; Books and Records; Discussions (a) Permit any of the officers or authorized employees or representatives of the Agent or any of the Banks to visit and inspect during normal business hours any of its properties and to examine and make excerpts from its books and records and discuss its business affairs, finances and accounts (including those of its Affiliates) with its officers, all in such detail and at such times and as often as any of the Banks may reasonably request, provided that each Bank shall provide the Borrower and the Agent with reasonable notice prior to any visit or inspection. In the event Required Banks desire to conduct an audit of the Borrower (to which the Borrower hereby consents), such Banks shall make a reasonable effort to conduct such audit contemporaneously with any audit to be performed by the Agent.

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(b) Maintain and keep proper books of record and account

which enable the Borrower and the Parent Company to issue financial statements in accordance with GAAP and as otherwise required by applicable Requirements of Law, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

5.7 Notices. Promptly, upon the Borrower becoming aware, give notice to the Agent and each Bank of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower, including, without limitation, the Indenture, or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, would have a Material Adverse Effect;

(c) any litigation or proceeding which, if adversely determined, would have a Material Adverse Effect;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence of any Reportable Event with respect to any Single Employer Plan, or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan which may, individually or in the aggregate, result in a liability which would have a Material Adverse Effect or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Single Employer Plan in a distress termination under Section 4041(c) of ERISA or Multiemployer Plan; and

(e) an event which has had a Material Adverse Effect.

Each notice pursuant to this subsection shall be accompanied by a statement of the Borrower, executed on its behalf by a Responsible Officer, setting forth details of the occurrence referred to therein and stating what action the Borrower propose to take with respect thereto.

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5.8 Environmental Laws (a) Comply with, and require compliance by all tenants and to the extent possible, all subtenants, if any, with, all Environmental Laws and obtain and comply with and maintain, and require that all tenants and to the extent possible, all subtenants obtain and comply with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws except to the extent that failure to so comply or obtain or maintain such documents would not have a Material Adverse Effect.

(b) Except as set forth in Schedule 3.13, comply with all lawful and binding orders and directives of all Governmental Authorities respecting Environmental Laws except to the extent that failure to so comply would not have a Material Adverse Effect.

(c) Defend, indemnify and hold harmless the Agent and the Banks, and their respective employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of or noncompliance with any Environmental Laws applicable to the real property owned or operated by the Borrower, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorneys' and consultants' fees, investigation and laboratory fees, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the negligence or willful misconduct of any of the foregoing enumerated parties.

5.9 Taxes. Pay when due all taxes, assessments and governmental charges imposed upon it or any of its properties or that it is required to withhold and pay over, except where contested in good faith and where adequate reserves have been set aside to the extent required under GAAP.

5.10 Covenants of the Indenture. Comply at all times with the covenants contained in the Supplemental Indenture, as such Supplemental Indenture supplements the Indenture, without regard to any amendment of or supplement to the Indenture occurring after November 15, 1999.

5.11 Guarantees of Obligations. It is the intent of the parties hereto that all of the obligations of the Borrower hereunder shall be unconditionally guaranteed by all of its Material Subsidiaries to the maximum extent permitted under the laws of the jurisdiction of organization of any such Material Subsidiary. Accordingly, in the event that any Material Subsidiary shall be formed, acquired or come into existence after the date hereof then the Borrower will cause such Material Subsidiary to (i) execute and deliver a Guaranty Agreement in form and substance satisfactory to the Agent pursuant to which such Material Subsidiary will become a "Guarantor" hereunder, and guarantee the obligations of the Borrower hereunder and under the Notes and other Loan Documents and (ii) deliver such proof of corporate or other action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by the Borrower pursuant to Section 4.1 on the Closing Date or as the Agent shall have reasonably requested.

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SECTION 6. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall not directly or indirectly:

6.1 Financial Covenants.

(a) Equity to Capital Ratio. Permit as of the end of any fiscal quarter the Equity to Capital Ratio to be less than thirty eight percent (38%).

(b) Interest Coverage Ratio. Permit as of the end of any fiscal quarter the Interest Coverage Ratio to be less than 1.8 to 1.

6.2 Limitation on Debt. At any time incur, create, assume, or suffer to exist any Debt except:

(i) amounts outstanding hereunder as Loans;

(ii) Debt existing as of the date hereof described on Schedule 6.2 (including any extensions or renewals or refinancings thereof provided there is no increase in the amount thereof or other significant change in the terms thereof);

(iii) Debt issued under and secured by the Indenture;

(iv) Subordinated Debt;

(v) Debt to commercial banks under additional lines of credit in an aggregate outstanding amount of up to \$10,000,000;

(vi) unsecured indebtedness to the Parent Company in each case having a maturity not in excess of 180 days and in an aggregate amount outstanding at any one time not exceeding \$24,000,000; and

(vi) other indebtedness incurred in the ordinary course of business for the purchase of capital assets.

6.3 Limitation on Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, including, without limitation, the stock of its Subsidiaries, whether now owned or hereafter acquired, except for:

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(a) The following, (i) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings

diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (ii) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and in either case they do not materially impair the ability of the Borrower to perform its obligations hereunder or under the other Loan Documents:

(A) Claims or Liens for taxes, assessments or charges due and payable and subject to interest or penalty, provided that the Borrower maintains such reserves or other appropriate provisions as shall be required by GAAP and pays all such taxes, assessments or charges forthwith upon the commencement of proceedings to foreclose any such Lien;

(B) Claims, Liens or encumbrances upon, and defects of title to, real or personal property including any attachment of personal or real property or other legal process prior to adjudication of a dispute on the merits; and

(C) Claims or Liens of mechanics, materialmen, warehousemen, carriers, or other statutory nonconsensual Liens;

(b) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(c) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business of the Borrower;

(d) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not interfere with the ordinary conduct of the business of the Borrower;

(e) Liens which were in existence on the date hereof and shown on Schedule 6.3 and replacements, extensions or replacements thereof;

(f) Liens on assets acquired by the Borrower in acquisitions permitted by Section 6.6 (which liens were in existence at the time of such acquisitions);

(g) Liens upon real property, which property was acquired after the Closing Date by the Borrower, each of which Liens existed on such property before the time of its acquisition or was created to finance, refinance or refund the cost (including the cost of construction) of the respective property; provided, however, that no such Lien shall extend to or cover any accounts receivable or inventory under any circumstances or any property of the Borrower other than the respective property so acquired and improvements thereon, and the principal amount of indebtedness secured by any such Lien shall not exceed the fair market value of the respective property at the time it was acquired;

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(h) Capital Leases as and to the extent permitted under this Agreement;

(i) purchase money security interests on capital equipment purchased in the ordinary course of business; and

(j) the Lien of the Indenture and other Liens in connection with the issuance of industrial revenue bonds or pollution control bonds, to the extent such Liens are permitted under the Indenture.

6.4 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets except:

(a) the Borrower may merge into the Parent Company, so long as the Parent Company is the surviving entity;

(b) any corporation or limited liability company (other

than the Parent Company) may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation); and

(c) a merger in connection with a Permitted Acquisition in accordance with Section 6.6 in which the surviving entity is the Borrower;

provided that, immediately after each such transaction and after giving effect thereto, the Borrower is in compliance with this Agreement and no Default or Event of Default shall be in existence or result from such transaction.

6.5 Limitation on Sale of Assets. Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, accounts receivable and leasehold interests), whether now owned or hereafter acquired, except:

(i) obsolete or worn out property disposed of in the ordinary course of business;

(ii) the sale of inventory or other assets, or the licensing of intellectual property, in each case in the ordinary course of business;

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(iii) any sale, transfer or lease of assets (i) which are replaced by like-kind assets or (ii) the proceeds of the sale of which are used within one-hundred and twenty (120) days of such sale to purchase like-kind assets;

(iv) any sale, transfer or lease of assets the proceeds of the sale of which are used to permanently reduce the Commitments; and

(v) in addition to the above subsections 6.5(a)(i) through 6.5(a)(iv), inclusive, any such conveyances, sales, leases, assignments, transfers or other disposals, the aggregate amount of which for any fiscal year does not exceed 5% of the Borrower's Consolidated Shareholders' Equity as at the end of the immediately preceding fiscal year.

6.6 Limitations on Acquisitions. Purchase, hold or acquire beneficially any stock, other securities or evidences of indebtedness of, or make or permit any investment or acquire any interest whatsoever in, any other Person, except for Permitted Acquisitions.

6.7 Limitation on Distributions and Investments. (a) At any time make (or incur any liability to make) or pay any Distribution in respect of the Borrower (other than a Distribution payable to the Parent Company); provided, however, that as of the declaration date of any such Distribution and after giving effect to the declaration or payment of any such Distribution no Default or Event of Default would exist; or

(b) Make any Investments other than Permitted Investments.

6.8 Transactions with Affiliates. Except as expressly permitted in this Agreement, directly or indirectly enter into any transaction or arrangement whatsoever or make any payment to or otherwise deal with any Affiliate, except, as to all of the foregoing in the ordinary course of and pursuant to the reasonable requirements of the Borrower's business and upon fair and reasonable terms no less favorable to the Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of the Borrower.

6.9 Sale and Leaseback. Except if reasonably contemporaneous with the Borrower's purchase, enter into any arrangement with any Person providing for the leasing by the Borrower of real or personal property which has been or is to be sold or transferred by such Borrower to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of such Borrower.

6.10 Fiscal Year. Permit its Fiscal Year to end on a day other than December 31.

6.11 Continuation of or Change in Business. Discontinue any substantial part, or change the nature of, the existing business activities of the Borrower, or engage in any business either directly or through any Subsidiary except for businesses in which the Borrower is engaged on the date of this Agreement and any business activities directly related, similar or incidental or ancillary to such existing businesses.

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SECTION 7 EVENTS OF DEFAULT

7.1 Events of Default If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay when due any principal of any Note, or shall fail to pay within five (5) days after the date when due any interest, Fees or other amount payable hereunder; or

(b) Any representation or warranty made or deemed made by the Borrower or any Guarantor herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) The Borrower shall default in the observance or performance of any agreement contained in Section 6; or

(d) The Borrower or any Guarantor shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in paragraphs (a), (b) or (c) of this Section 7.1) or any other Loan Document, and such default shall continue unremedied for a period of thirty (30) days after notice of such default is given by the Agent; or

(e) One or more judgments or decrees shall be entered against the Borrower or any Guarantor involving in the aggregate a liability (not paid or fully covered by insurance) of \$1,000,000 or more and all such judgments or decrees shall not have been vacated, discharged, settled, satisfied or paid, or stayed or bonded pending appeal, within thirty (30) days from the entry thereof; or

(f) The Borrower shall (i) default in the payment of any amount due under any Debt of the Borrower in excess of \$1,000,000 in the aggregate (other than the Notes), beyond the period of grace, if any, provided in the instrument or agreement under which such Debt was created; or (ii) default in the observance or performance of any other agreement contained in any such Debt or in any instrument or agreement evidencing, securing or relating thereto beyond any applicable notice and grace period, or any other event shall occur the effect of which default or other event is to cause, or to permit the holder or holders or beneficiary or beneficiaries of such Debt (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause such Debt to become due and payable prior to its stated maturity or any such Debt is declared to be due and payable prior to its stated maturity unless such default, event or declaration referred to in this subparagraph (ii) is waived or cured to the satisfaction of such other party as demonstrated to the satisfaction of the Agent by the Borrower prior to the Agent taking any action under Section 7.2 in respect of such occurrence; or

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(g) (i) The Borrower or any Guarantor shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Borrower or any Guarantor shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any Guarantor any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or

appointment or (B) remains undismissed, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Borrower or any Guarantor any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process on a claim in excess of \$1,000,000 against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Borrower or any Guarantor shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any Guarantor shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(h) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or institution of proceedings is, in the reasonable opinion of the Required Banks, likely to result in the termination by action of the PBGC or any court of such Plan for purposes of Title IV of ERISA, or (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA; and in each case in clauses (i) through (iv) above, such event or condition, together with all other such events or conditions, if any would have a Material Adverse Effect; or

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(i) Any change in control of the Borrower shall occur (as used herein, the term "change in control" means either (A) any change in ownership of any class of stock or capital stock generally of the Borrower which would result in a change or transfer in the power to control the election of a majority of the board of directors or in other indicia of majority voting control to persons or entities other than those persons who have such majority voting control on the Closing Date or (B) a decrease in such persons' right to vote at shareholders' meetings to an aggregate level less than 51%); or

(j) Any of the Loan Documents shall cease to be legal, valid and binding agreements enforceable against the party executing the same or such party's successors and assigns (as permitted under the Loan Documents) in accordance with the respective terms thereof or shall in any way be terminated (except in accordance with its terms) or become or be declared ineffective or inoperative or shall in any way be challenged and thereby deprive or deny the Banks and the Agent the intended benefits thereof or they shall thereby cease substantially to have the rights, titles, interests, remedies, powers or privileges intended to be created thereby; or

(k) A notice of lien or assessment in excess of \$1,000,000 is filed of record with respect to all or any part of the Borrower's or any Guarantor's assets having a value of at least that amount by the United States, or any department, agency or instrumentality thereof, or by any state, county, municipal, or other governmental agency, including, without limitation, the PBGC, becomes payable and the same is not paid, vacated, bonded or stayed pending appeal within thirty (30) days after the same becomes payable; or

(l) The Borrower ceases to be Solvent; or

(m) Except as otherwise permitted in this Agreement, the Borrower ceases to conduct its business as contemplated or the Borrower is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business so as to cause or result in a Material Adverse Effect, and such injunction, restraint or other preventive order is not dismissed within thirty (30) days after the entry thereof.

7.2 Remedies (a) If an Event of Default specified under subsections 7.1 (a) through (f) or (h) through (m) shall occur and be continuing, the Banks shall be under no further obligation to make Loans hereunder, and the Agent upon the request of the Required Banks shall by written notice to the Borrower, terminate the Commitments and the Swing Line Commitment and/or declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the

Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived.

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(b) If an Event of Default specified under subsections 7.1(g) hereof shall occur, the Commitments and the Swing Line Commitment shall immediately terminate and the Banks shall be under no further obligations to make Loans hereunder, and the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

(c) If an Event of Default shall occur and be continuing, any Bank to whom any obligation is owed by the Borrower hereunder or under any other Loan Document or any participant of such Bank which has agreed in writing to be bound by the provisions of Section 9.6 hereof and any branch, subsidiary or Affiliate of such Bank or Participant shall have the right, in addition to all other rights and remedies available to it, without notice to the Borrower, to set-off against and apply to the then unpaid balance of all the Loans and all other obligations of the Borrower hereunder or under any other Loan Document any debt owing to, and any other funds held in any manner for the account of, the Borrower by such Bank or participant or by such branch, Subsidiary or Affiliate, including, without limitation, all funds in all deposit accounts (whether time or demand, general or special, provisionally credited or finally credited, or otherwise) now or hereafter maintained by the Borrower for its own account (but not including funds held in custodian or trust accounts or other accounts established solely for the benefit of parties other than the Borrower) with such Bank or Participant or such branch, Subsidiary or Affiliate. Such right shall exist whether or not any Bank or the Agent shall have made any demand under this Agreement or any other Loan Document, whether or not such debt owing to or funds held for the account of the Borrower is or are matured or unmatured and regardless of the existence or adequacy of any collateral, guaranty or any other security, right or remedy available to any Bank or the Agent.

(d) Notwithstanding any provision herein to the contrary or in the other Loan Documents, any proceeds received by the Agent from any payment made by the Borrower under this Agreement or the other Loan Documents after the Commitments and the Swing Line Commitment have been terminated, or received by the Agent from the foreclosure, sale, lease, collection upon, realization of or other disposition of any collateral which may have been provided to the Agent for the obligations of the Borrower hereunder after the Commitments and the Swing Line Commitment have been terminated (including without limitation insurance proceeds), shall be applied by the Agent as follows, unless otherwise agreed by all the Banks:

(i) first, to reimburse the Agent for out-of-pocket costs, expenses and disbursements, including without limitation reasonable attorneys' fees and legal expenses, incurred by the Agent in connection with collection of any obligations of the Borrower under any of the Loan Documents;

(ii) second, to accrued and unpaid interest on the Loans;

(iii) third, to the principal amount of the Loans then outstanding;

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(iv) fourth, to fees payable under this Agreement or any of the other Loan Documents (ratably according to the respective amounts then outstanding);

(v) fifth, to the repayment of all other indebtedness then due and unpaid of the Borrower to the Banks incurred under this Agreement or any of the other Loan Documents, whether of principal, interest, fees, expenses or otherwise (ratably according to the respective amounts then

outstanding); and

(vi) the balance, if any, as required by law.

(e) Each Bank agrees that (i) if at any time it shall receive the proceeds of any collateral or any proceeds thereof or (ii) if after the Commitments and the Swing Line Commitment have been terminated it shall receive any payment on account of the Loans or any other amounts owing hereunder or under the other Loan Documents, under an Interest Rate Protection Agreement (in either case other than through application by the Agent in accordance with subsection 7.2(d)), it shall promptly turn the same over to the Agent for application in accordance with the terms of subsection 7.2(d).

(f) In addition to the other rights and remedies contained in this Agreement or in the other Loan Documents, the Loans shall, at the Required Banks' option, bear the interest rates provided in Section 2.7 hereof.

(g) In addition to all of the rights and remedies contained in this Agreement or in any of the other Loan Documents, the Agent shall have all of the rights and remedies under applicable Law, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by Law. The Agent may, and upon the request of the Required Banks shall, exercise all post-default rights granted to it and the Banks under the Loan Documents or applicable Law.

SECTION 8. THE AGENT

8.1 Appointment Each Bank hereby irrevocably designates and appoints PNC as the Agent of such Bank under this Agreement. Each such Bank irrevocably authorizes the Agent, as the agent for such Bank to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Agent. The Agent agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

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8.2 Delegation of Duties The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to engage and pay for the advice and services of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible to the Banks for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

8.3 Exculpatory Provisions Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by them or such Person under or in connection with this Agreement (except for their or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Notes or the other Loan Documents or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or the other Loan Documents, or to inspect the properties, books or records of the Borrower.

8.4 Reliance by Agent The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper

Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as they deem appropriate or they shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes and the other Loan Documents in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

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8.5 Notice of Default The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless they have received notice from a Bank or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Banks; provided that unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

8.6 Non-Reliance on Agent and Other Banks Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

8.7 Indemnification The Banks agree to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Commitment Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, the other Loan Documents, or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The

agreements in this Section 8.7 shall survive the payment of the Notes and all other amounts payable hereunder.

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8.8 Agent in its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though it was not the Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it, the Agent shall have the same rights and powers under this Agreement as any Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include the Agent in its individual capacity.

8.9 Successor Agent The Agent may resign as Agent upon sixty (60) days' notice to the Banks and the Borrower. If such Agent shall resign as Agent under this Agreement, then the Required Banks shall appoint from among the Banks a successor agent for the Banks, which appointment shall be subject to the approval of the Borrower (which approval shall not be unreasonably withheld), whereupon such successor agent shall succeed to the rights, powers and duties of an Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation as Agent, the provisions of this Section 8.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

8.10 Beneficiaries Except as expressly provided herein, the provisions of this Section 8 are solely for the benefit of the Agent and the Banks, and the Borrower shall not have any rights to rely on or enforce any of the provisions hereof. In performing their functions and duties under this Agreement the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation toward or relationship of agency or trust with or for the Borrower.

SECTION 9. MISCELLANEOUS

9.1 Amendments and Waivers. Neither this Agreement, any Note or any other Loan Document, nor any terms hereof of thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Banks, the Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or waiving, on such terms and conditions as the Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall directly or indirectly (a) reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any Fees payable to any Bank hereunder, or change the duration or amount of any Bank's Commitment, in each case

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without the consent of the Bank affected thereby or (b) amend, modify or waive any provision of this Section 9.1 or reduce the percentages specified in the definition of Required Banks or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, the Notes and the other Loan Documents, in each case without the written consent of all the Banks, (c) amend, modify or waive any provision of Section 2.2 without the written consent of the then Swing Line Bank or (d) amend, modify or waive any provision of Section 8 without the written consent of the then Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default

waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

9.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including electronic transmission, facsimile transmission or posting on a secured web site), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or three days after being deposited in the mail, postage prepaid, or, in the case of facsimile transmission notice, when sent during normal business hours with electronic confirmation or otherwise when received, or in the case of electronic transmission, when received and in the case of posting on a secured web site, upon receipt of (i) notice of such posting and (ii) rights to access such web site, addressed as follows in the case of the Borrower and the Agent, and as set forth in Schedule I in the case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

the Borrower: Philadelphia Suburban Water Company
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Attention: Kathy L. Pape,
Vice President and Treasurer

Facsimile: (610) 645-1141

with a copy to: Philadelphia Suburban Water Company
762 West Lancaster Avenue
Bryn Mawr, PA 19010
Attention: Roy H. Stahl
Senior Vice President - Law and
Administration
(provided that failure to send a copy of
any notice to said counsel shall in no
way affect, limit or invalidate any
notice sent to the Borrower or the
exercise of any of the Banks' or the
Agent's rights or remedies pursuant to a
notice sent to the Borrower.)

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The Agent or the PNC Bank, National Association
Swing Line Bank: 1000 Westlakes Drive, Suite 200
Berwyn, PA 19312
Attention: Frank A. Pugliese

Facsimile: (610) 725-5799

and

PNC Agency Services
One PNC Plaza
249 Fifth Avenue
22nd Floor
Pittsburgh, PA 15222
Attention: Arlene Ohler

Facsimile: (412) 762-8672

provided that any notice, request or demand to or upon the Agent, the Swing Line Bank or the Banks pursuant to Sections 2.1, 2.2, 2.8 or 2.9 shall not be effective until received.

9.3 No Waiver; Cumulative Remedies No failure to exercise and no delay in exercising, on the part of the Agent or any Bank, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers

and privileges provided by law.

9.4 Survival of Representations and Warranties All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement, the Notes and the other Loan Documents.

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9.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with any amendment, supplement or modification to this Agreement, the Notes, the other Loan Documents and any other documents prepared in connection therewith, including, without limitation, the reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent), (b) to pay or reimburse each Bank and the Agent for all of their costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent) and to the several Banks, and (c) to pay, indemnify, and hold each Bank and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other similar taxes, if any (other than Taxes expressly excluded from the definition of Taxes in Section 2.12 and Taxes for which the Borrower has no liability under subsection 2.12(c)) which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the other Loan Documents, and any such other documents, and (d) to pay, indemnify, and hold each Bank and the Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, and, incident to a Default or Event of Default, the performance and administration, of this Agreement, the Notes, the other Loan Documents and any such other documents or the transactions contemplated hereby or thereby or any action taken or omitted under or in connection with any of the foregoing (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Agent or any Bank with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Agent or any such Bank. The Borrower shall be given notice of any claim for indemnified liabilities and shall be afforded a reasonable opportunity to participate in the defense, compromise or settlement thereof. The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

9.6 Successors and Assigns (a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party, and all covenants, promises and agreements by or on behalf of the Borrower, the Agent or the Banks that are contained in this Agreement shall bind and inure to the benefit of their respective successors and assigns. The Borrower may not assign or transfer any of its rights or obligations under this Agreement or the other Loan Documents without the prior written consent of each Bank.

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(b) Each Bank may, in accordance with applicable law, assign to all or a portion of its interests, rights and obligations under this Agreement and the other Loan Documents (including all or a portion of its Commitment or the Swing Line Commitment, and the Loans at the time owing to it and the Notes held by it); provided, however, that (i) each such assignment shall be to a Bank or Affiliate thereof, or, with the consent of the Agent and, prior to the occurrence of an Event of Default, of the Borrower (which consent shall not be unreasonably withheld or delayed) to one or more banks or other financial institutions, (ii) so long as the Commitments are in effect, the amount of each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Agent) shall not be less than \$5,000,000, (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note or

Notes subject to such assignment and a processing and recordation fee of \$3,500 (except in the case of an assignment by any Bank to one of its Affiliates), (iv) any assignment of the Swing Line Commitment may be made only to a Bank which holds a Commitment hereunder and must be of the entire Swing Line Commitment and (v) each such assignment of Revolving Credit Loans and all or any portion of a Bank's Commitment shall be of a constant, and not a varying, percentage of the assigning Bank's Commitment and Revolving Credit Loans then outstanding. Upon acceptance and recording pursuant to paragraph (d) of this Section 9.6, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.11, 2.12, 2.13 and 9.5 (to the extent that such Bank's entitlement to such benefits arose out of such Bank's position as a Bank prior to the applicable assignment)). Notwithstanding any provision of this subsection 9.6, after the Commitments and the Swing Line Commitments have been terminated, any Bank may assign all or any portion of its interests, rights and obligations under this Agreement and the other Loan Documents to any Person (whether or not an entity described in clause (i) above).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby, free and clear of any adverse claim, and that its Commitment and/or the Swing Line Commitment, as the case may be, and the outstanding balances of its Loans, in each case without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents, or any other instrument or document furnished pursuant hereto or thereto, or the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such

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Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

(d) The Agent shall maintain at its offices in Philadelphia, Pennsylvania a copy of each Assignment and Acceptance and the names and addresses of the Banks, and the Commitment and/or the Swing Line Commitment of, and principal amount of the Loans owing to, each Bank pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive in the absence of error and the Borrower, the Agent and the Banks may treat each person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note or Notes subject to such assignment, the processing and recordation fee referred to in paragraph (b) above, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered original Note(s), (x) a new Revolving Credit Note to the order of such assignee in an amount equal to the portion of the Commitment assumed by it pursuant to such Assignment and Acceptance and, if applicable, a new Swing Line Note to the order of such assignee in an amount equal to the Swing Line Commitment and, (y) if the assigning Bank has retained a Commitment, a new Revolving Credit Note to the order of such assigning Bank in a principal amount equal to the applicable Commitment retained by it. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Notes; such new Notes shall be dated the date of the surrendered Notes which they replace and shall otherwise be in substantially the form of Exhibit B-1 or Exhibit B-2 hereto, as appropriate. Canceled Notes shall be returned to the Borrower.

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(f) Each Bank may without the consent of the Borrower or the Agent sell participations to one or more banks or other entities (each a "Participant") in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment or Swing Line Commitment and the Loans owing to it and the Notes held by it); provided, however, that (i) such Bank's obligations under this Agreement shall remain unchanged, (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Bank shall remain the holder of any such Note for all purposes under this Agreement, (iv) the Borrower, the Agent and the other Banks shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement, (v) in any proceeding under the Bankruptcy Code such Bank shall be, to the extent permitted by law, the sole representative with respect to the obligations held in the name of such Bank whether for its own account or for the account of any Participant and (vi) such Bank shall retain the sole right to enforce the obligations of the Borrower relating to the Loans and to approve any amendment, modification or waiver of any provision of this Agreement or the Note or Notes held by such Bank other than any such amendment, modification or waiver with respect to any Loan or Commitment in which such Participant has an interest and which is described in subsection 9.1(a) hereof.

(g) If amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Note, provided that in purchasing such participation such Participant shall be deemed to have agreed to share with the Banks the proceeds thereof as provided in Section 9.8. The Borrower also agree that each Participant shall be entitled to the benefits of Sections 2.11, 2.12, 2.13 and 9.5 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the Bank selling the participation would have been entitled to receive in respect of the amount of the participation transferred by such Bank to such Participant had no such transfer occurred.

(h) If any Participant is organized under the laws of any jurisdiction other than the United States or any state thereof, the Bank selling the participation, concurrently with the sale of a participating interest to such Participant, shall cause such Participant (i) to represent to the Bank selling the participation (for the benefit of such Bank, the other Banks, the Agent and the Borrower) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Borrower or the Bank selling the participation with respect to any payments to be made to such Participant in respect of its participation in the Loans and (ii) to agree (for the benefit of such Bank, the other Banks, the Agent and Borrower) that it will deliver the tax forms and other documents required to be delivered pursuant to Section 2.12 and comply from time to time with all applicable U.S. laws and regulations with respect to withholding tax exemptions.

(i) Any Bank may at any time assign all or any portion of its rights under this Agreement and the Notes issued to it to a Federal Reserve Bank; provided that no such assignment shall release a Bank from any of its obligations hereunder.

9.7 Confidentiality The Banks agree that they will maintain all information and financial statements provided to them or otherwise obtained by them with respect to the Borrower and its Subsidiaries confidential and that they will not disclose the same or use it for any purposes; provided that nothing herein shall prevent any Bank from disclosing any such information (a) to the Agent or any other Bank, (b) to any prospective assignee or participant in connection with any assignment or participation of Loans permitted by this Agreement, (c) to its employees, directors, agents, attorneys, accountants and other professional advisers, provided that any such person is advised by such Bank that such information is subject to the confidentiality limitations of this Section, (d) upon the request or demand of any Governmental Authority having jurisdiction over such Bank, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, provided that the Borrower has (unless prohibited by the terms of any such order or requirement) been advised at least ten (10) days (or if such is not possible or practicable, such lesser number of days as is possible or practicable under the circumstances) prior to such disclosure of the existence of such order or requirement, (f) which has been publicly disclosed other than in breach of this Agreement, or (g) in connection with the exercise of any remedy hereunder or under the Notes.

9.8 Adjustments; Set-off (a) If any Bank (a "benefitted Bank") shall at any time receive any payment of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in subsection 7(g), or otherwise), in a greater proportion than any such payment to or collateral received by any other Bank, if any, in respect of such other Bank's Loans, or interest thereon, being paid in respect of Loans being repaid simultaneously therewith or Loans required hereby to be paid proportionately such benefitted Bank shall purchase for cash from the other Banks such portion of each such other Bank's Loan, or shall provide such other Banks with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Bank to share the excess payment or benefits of such collateral or proceeds ratably with each of the Banks; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Bank, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that each Bank so purchasing a portion of another Bank's Loan may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Bank were the direct holder of such portion.

(b) In addition to any rights and remedies of the Banks provided by law, upon the occurrence of an Event of Default, each Bank shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Bank to or for the credit or the account of the Borrower. Each Bank agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Bank, that the failure to give such notice shall not affect the validity of such set-off and application.

9.9 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one

and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and each of the Banks.

9.10 Severability. Any provision of this Agreement which 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 not invalidate or render unenforceable such provision in any other jurisdiction.

9.11 Integration This Agreement represents the agreement of the Borrower, the Agent and the Banks with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Agent or any Bank relative to subject matter hereof not expressly set forth or referred to herein or in the Notes or the other Loan Documents.

9.12 GOVERNING LAW THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS HAVE BEEN EXECUTED IN THE COMMONWEALTH OF PENNSYLVANIA AND SAID DOCUMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT, THE NOTES AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

9.13 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement, the Notes or the other Loan Documents, or for recognition and enforcement of any judgement in respect thereof, to the non-exclusive general jurisdiction of the Courts of the Commonwealth of Pennsylvania located in Montgomery and Philadelphia Counties, the courts of the United States of America for the Eastern District of Pennsylvania, and appellate courts from any thereof;

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(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at the address set forth in Section 9.2 for the Borrower or at such other address of which the Agent shall have been notified pursuant thereto; and

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

9.14 Acknowledgments The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents;

(b) neither the Agent nor any Bank has any fiduciary relationship to the Borrower, and the relationship between the Agent and the Banks, on one hand, and the Borrower, on the other hand, is solely that of debtor and creditor; and

(c) no joint venture exists among the Banks or between the Borrower and the Banks.

9.15 WAIVERS OF JURY TRIAL EACH OF THE BORROWER, THE AGENT AND THE BANKS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS AND FOR ANY COUNTERCLAIM THEREIN.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

PHILADELPHIA SUBURBAN WATER COMPANY

By: /s/ Kathy L. Pape

Title: Vice President & Treasurer

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

By: /s/ Frank A. Pugliese

Title: Assistant Vice President

FIRST UNION NATIONAL BANK

By: /s/ Joey K. Dancy

Title: Vice President

MELLON BANK, N.A.

By /s/ Mark W.Torie

Title: Vice President

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Schedule I

Bank and Commitment Information

Bank	Commitment	Swing Line Commitment
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PNC Bank, National Association 1000 Westlakes Drive, Suite 200 Berwyn, PA 19312 Attention: Frank A. Pugliese	\$22,500,000	\$2,000,000
First Union National Bank One First Union Center 301 South College Street, TW-5 Charlotte, NC 28288-0735 Attention: Michael Kolosowsky, Director	\$15,000,000	N/A
Mellon Bank, N.A. 610 W. Germantown Avenue Plymouth Meeting, PA 19462 Attention: Mark W. Torie	\$12,500,000	N/A

Schedule 3.6

Existing Litigation

None.

Schedule 3.10

ERISA Matters

None.

Schedule 3.11

Regulatory Approvals

The Pennsylvania Public Utility Commission regulates Borrower's issuance of debt, the maturity date of which is one year or more from the date of execution. (66 Pa. C.S.ss. 1901)

Schedule 3.13

Environmental Matters

- A. In its water treatment process, the Borrower uses chemicals, including chlorine, caustic soda and sodium chlorite, which are listed as hazardous substances. These chemicals are, in all materials respects, stored and used at the Borrower's plants and facilities in accordance with the Environmental Laws.
- B. The Borrower operates a central laboratory at its Bryn Mawr facility for analysis of drinking water samples. To perform required analyses, the Borrower maintains small quantities of solvents, reagents and chemical standards, some of which are listed as hazardous substances. These materials, in all material respects, are stored and used in compliance with the Environmental Laws.

Schedule 3.20

Interests in Partnerships

None.

Schedule 6.2

Permitted Debt

- A. Credit facility with Mellon Bank, N.A. for up to \$3,000,000 in Letters of Credit.
- B. \$1,000,000 discretionary line of credit facility between Mellon Bank, N.A. and the Borrower.
- C. Deferred taxes as are deducted from the Borrower's Rate Base in calculating its Revenue Requirement in setting rates before the Pennsylvania Public Utility Commission.
- D. Suretyship agreements which arise from the bonding requirements under the Pennsylvania Residual Waste Regulations relating to the future closure of landfills used to dispose of water treatment plant sludge. Additional surety bonds support various licenses, permits and condemnations.
- E. Agreements for the purchase of water are maintained with Chester Water

Authority and Bucks County Water and Sewer Authority.

- F. In the normal course of business, after the Borrower performs excavation work in various highways in order to access water mains and other underground facilities, the Borrower is required by township and state permits to restore the excavated area.
- G. The Borrower leases motor vehicles and other equipment under operating leases that are noncancellable and expire on various dates through 2003. The Borrower leases parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The operating lease is noncancellable, expires in 2045, and contains certain renewal provisions. The lease is subject to an adjustment every five years based on changes in the Consumer Price Index.

Schedule 6.3

Existing Liens

- A. Indenture of Mortgage dated as of January 1, 1941 from the Borrower to Chase Manhattan Trust Company, National Association (successor to the Pennsylvania Company for Insurance on Lives and Granting Annuities), as amended and supplemented.

EXHIBIT A

FORM OF
BORROWING REQUEST

PNC Bank, National Association
 as Agent for the
 Banks referred to below
 PNC Agency Services
 One PNC Plaza
 249 Fifth Avenue
 22nd Floor
 Pittsburgh, PA 15222
 Attention: Arlene Ohler

[Date]

Ladies and Gentlemen:

The undersigned, Philadelphia Suburban Water Company (the "Borrower"), refers to the Credit Agreement dated as of December __, 1999 (as amended, modified, extended or restated from time to time, the "Agreement"), among the Borrower, the Banks party thereto and PNC Bank, National Association as Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement. The Borrower hereby gives you notice pursuant to Section 2.1 of the Agreement that it requests a Borrowing under the Agreement, and in that connection sets forth below the terms on which such Borrowing is requested to be made:

- (A) Date of Borrowing _____
 (which is a Business Day)
- (B) Principal Amount of
 Borrowing (1) \$ _____

 (1) Not less than \$500,000 or a whole multiple of \$100,000 in excess thereof for a Eurodollar Borrowing nor less than \$250,000 or a whole multiple of \$50,000 in excess thereof for a Base Rate Borrowing.

(C) Interest rate basis (2) _____
(D) Interest Period and the
last day thereof (3) _____

Upon acceptance of any or all of the Revolving Credit Loans made by the Banks in response to this request, the Borrower shall be deemed to have represented and warranted that the conditions to lending specified in Section 4.2 of the Agreement have been satisfied.

Very truly yours,

PHILADELPHIA SUBURBAN WATER COMPANY

By: _____
Title: _____

(2) Eurodollar Loan or Base Rate Loan.

(3) Which shall be subject to the definition of "Interest Period" and end not later than the Termination Date.

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EXHIBIT B-1

NOTE

\$ _____ Philadelphia, Pennsylvania
December __, 1999

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN WATER COMPANY (the "Borrower"), hereby promises to pay to the order of _____ (the "Bank"), at the office of PNC Bank, National Association (the "Agent"), at 1600 Market Street, Philadelphia, PA 19103, on the Termination Date, the lesser of the principal sum of _____ Dollars (\$ _____) and the aggregate unpaid principal amount of all Loans made by the Bank to the Borrower pursuant to Section 2.1 of the Credit Agreement dated as of December __, 1999, among the Borrower, the Banks party thereto and the Agent (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates determined as set forth in the Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligations of the Borrower to make payments of principal and interest in accordance with the terms of this Note and the Agreement.

This Note is one of the Notes referred to in, evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a higher rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This Note shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

PHILADELPHIA SUBURBAN WATER COMPANY

By: _____
 Name:
 Title:

B-1-2

Loans and Payments

Date	Amount of Loan	Interest Rate	Interest Period	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
				Principal	Interest		
----	-----	-----	-----	-----	-----	-----	-----

B-1-3

EXHIBIT B-2

SWING LINE NOTE

\$2,000,000

Philadelphia, Pennsylvania
 December __, 1999

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN WATER COMPANY (the "Borrower"), hereby promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Bank"), at the office of the Agent (as hereinafter defined), at 1600 Market Street, Philadelphia, PA 19103, in accordance with the terms of the Agreement (as hereinafter defined), the lesser of the principal sum of Two Million Dollars (\$2,000,000) and the aggregate unpaid principal amount of all Swing Line Loans made by the Bank to the Borrower pursuant to Section 2.2 of the Credit Agreement dated as of December __, 1999, among the Borrower, the Banks party thereto and PNC Bank, National Association, as agent for the Banks (the "Agent") (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

The Borrower promises to pay interest, on demand, on any overdue principal and, to the extent permitted by law, overdue interest from their due dates at the rate or rates determined as set forth in the Agreement.

The Borrower hereby waives diligence, presentment, demand, protest and notice of any kind whatsoever. The nonexercise by the holder of any of its rights hereunder in any particular instance shall not constitute a waiver thereof in that or any subsequent instance.

All borrowings evidenced by this Swing Line Note and all payments and prepayments of the principal hereof and interest hereon and the respective dates thereof shall be endorsed by the holder hereof on the schedule attached hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, or otherwise recorded by such holder in its internal records; provided, however, that the failure of the holder hereof to make such a notation or any error in such a notation shall not in any manner affect the obligations of the Borrower to make payments of principal and interest in accordance with the terms of this Swing Line Note and the Agreement.

B-2-1

This Swing Line Note is the Swing Line Note referred to in, evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a higher rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This Swing Line Note shall be construed in accordance with and governed by the laws of the Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

PHILADELPHIA SUBURBAN WATER COMPANY

By: _____
 Name:
 Title:

B-2-2

Loans and Payments

Date	Amount of Loan	Interest Rate	Swing Line Repayment Date	Payments		Unpaid Principal Balance of Note	Name of Person Making Notation
				Principal	Interest		
----	-----	-----	-----	-----	-----	----	-----

B-2-3

EXHIBIT C

FORM OF
 ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of December __, 1999 (as amended, modified, extended or restated from time to time, the "Agreement"), among Philadelphia Suburban Water Company (the "Borrower"), the banks party thereto (the "Banks") and PNC Bank, National Association, as Agent. Terms defined in the Agreement are used herein with the same meanings.

_____ (the "Assignor") and _____ (the "Assignee") hereby agree as follows:

The Assignor hereby sells and assigns, without recourse, to the Assignee, and the Assignee hereby purchases and assumes, without recourse, from the Assignor, effective as of the Effective Date set forth on Schedule A

attached hereto, the interests set forth on Schedule A (the "Assigned Interest") in the Assignor's rights and obligations under the Agreement, including, without limitation, the interests set forth on Schedule A in the Commitment of the Assignor on the Effective Date and the Loans owing to the Assignor which are outstanding on the Effective Date, together with unpaid interest accrued on the assigned Loans to the Effective Date and the amount, if any, set forth on Schedule A of the Fees accrued to the Effective Date for the account of the Assignor. Each of the Assignor and the Assignee hereby makes and agrees to be bound by all the representations, warranties and agreements set forth in Section 9.6(c) of the Agreement, a copy of which has been received by each such party. From and after the Effective Date (i) the Assignee shall be a party to and be bound by the provisions of the Agreement and, to the extent of the interests assigned by this Assignment and Acceptance, have the rights and obligations of a Bank thereunder and under the Agreement or any other document issued in connection therewith and (ii) the Assignor shall, to the extent of the interests assigned by this Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement.

This Assignment and Acceptance is being delivered to the Agent together with (i) the Notes evidencing the Loans included in the Assigned Interest, (ii) if the Assignee is organized under the laws of a jurisdiction outside the United States, the forms prescribed by the Internal Revenue Service of the United States certifying as to the Assignee's exemption from withholding taxes with respect to all payments to be made to the Assignee under the Agreement or such other documents as are necessary to indicate that all such payments are subject to such tax at a rate reduced by an applicable tax treaty, all duly completed and executed by such Assignee, and (iii) a processing and recordation fee of \$3,500, if required.

This Assignment and Acceptance shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

C-1

The terms set forth above and on Schedule A attached hereto are hereby agreed to as of the date hereof.

_____, as Assignor

By: _____

Name:
Title:

_____, as Assignee

By: _____

Name:
Title:

Acknowledged:

PNC BANK, NATIONAL ASSOCIATION,
as Agent

By: _____

Name:
Title:

Consented to:

PHILADELPHIA SUBURBAN WATER COMPANY

By: _____

Name:
Title:

C-2

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Attention: _____
Telecopy: _____

Effective Date of Assignment
(may not be fewer than 5 Business
Days after the Date of Assignment): _____

Revolving Credit Facility	Principal Amount Assigned	Percentage of Loans and Commitment Assigned
Commitment Assigned:	\$	%
Loans:	\$	%

Swing Loan Facility	Principal Amount Assigned	Percentage of Loans and Commitment Assigned
Commitment Assigned:	\$	100%
Swing Line Loans:	\$	100%

PHILADELPHIA SUBURBAN CORPORATION
PHILADELPHIA SUBURBAN WATER COMPANY
2000 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- o During the first quarter of 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies and PSC's experience with incentive compensation.
- o The study included interviews with PSWC and PSC executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan"). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors feel it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).
- o The Plan has two components - a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.
- o The Plan is designed to provide an appropriate incentive to the officers and managers of the Company. The 2000 Management Incentive Program will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries, other than those employees covered under the Consumers Water Company Incentive Compensation Plan.
- o The plan is periodically reviewed by the Company's outside compensation consultant and the target bonus percentages are reviewed and approved each year as part of the compensation consultant's annual review of the Company's total compensation plan.

1

MANAGEMENT INCENTIVE PROGRAM

- o Performance Measures
 - Annual incentive bonus awards are calculated by multiplying an individual's Target Bonus by a Company Rating Factor based on the Company's performance and an Individual Rating Factor based on the individual employee's performance.

The approach of having a plan tied to the Company's income performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the Company and making its capital construction and acquisition programs possible. Customers also benefit from the Company's employees' objectives being met as improvements in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers.
 - The Company's actual after-tax net income from continuing operations relative to the annual budget will be the primary measure for the Company's performance. Each year a "Target Net Income" level will be established. Starting in 2000, portions

of the Company Rating Factor may be allocated to the net income targets of various operating units for each participant. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 2000, the Target Net Income will exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles.

- Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the Target Net Income. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target Net Income for the year. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income.
- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation (the "Individual Factor"). Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity and enhancing customer service. Each objective has specific performance measures that are used to determine the level of achievement for each objective.

2

o Participation

- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 50 percent of salary depending on duties and responsibilities.
- Actual bonuses may range from 0, if the Company's financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance -- both Company and individual -- is rated at the maximum.

o Company Performance

- Company performance will be measured on the following schedule:

	Percent of 2000 Plan	Company Rating
	-----	-----
Threshold.....	90%	0%
	90	50
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan.....	100	100
	105	110
	110	125

- The actual Company Factor should be calculated by interpolation between the points shown in the table above.
- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Rating for purposes of this Plan.

3

o Individual Performance

-- Individual performance will be measured on the following scale:

Performance Measure Points -----	Individual Rating Factor -----
0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

-- In addition, up to 40 additional points and additional percentage points may be awarded to a participant at the discretion of the Chief Executive Officer for exemplary performance. Individual performance points for the Chief Executive Officer are determined by the Executive Compensation and Employee Benefits Committee.

Sample Calculations

o Example 1

Salary	\$70,000
Target Bonus	10 percent (\$7,000)
Company Rating	100 percent
Individual Rating	90 percent

Calculation:

Target Bonus	x	Company Rating	x	Individual Rating	=	Bonus Earned
----- \$7,000		----- 100%		----- 90%		----- \$6,300 =====

o Example 2

-- Using the same salary and target bonus, but assuming Company performance was less than 90 percent of Target Net Income, there would be no bonus earned.

Calculation:

\$7,000	x	0	x	90%	=	0
---------	---	---	---	-----	---	---

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o Example 3

-- Similarly, if the Individual Factor is rated below 70 points, no bonus would be earned regardless of the Company Factor.

Calculation:

\$7,000	x	100%	x	0	=	0
---------	---	------	---	---	---	---

5

EMPLOYEE RECOGNITION ("CHAIRMAN'S AWARD") PROGRAM

o In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman's Award program

to reward employees not eligible for the management bonus plan for general superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action, or heroic deed, or for a project that positively impacts the performance or image of the Company.

- o Awards will be made from an annual pool, not to exceed \$175,000 (which represents approximately 2% of the base payroll for the non-union employees who do not participate in the Management Incentive Program), established at the beginning of the year. Unused funds will not be carried over to the next year. If financial performance warrants, management may request permission from the Executive Compensation and Employee Benefits Committee for special awards under the program.
- o Awards will be made throughout the year and through the first quarter of the following year with payment as close to the timing of the event being rewarded as possible.
- o Department Heads may nominate individuals in their unit to the applicable Vice President and document the reasons for the recommendations. The applicable Vice President will review the nominations and forward their recommendations to the Chief Executive Officer.
- o The Chief Executive Officer will determine the individuals to actually receive a bonus and the amount.

AGREEMENT

Agreement made as of the 1st day of December, 1999, by and among Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC" or the "Company") and David P. Smeltzer (the "Executive").

WHEREAS, the Executive is presently employed by the Company, as its Senior Vice President - Finance; and

WHEREAS, the Company considers it essential to foster the employment of well-qualified, key management personnel, and, in this regard, the board of directors of the Company recognize that, as is the case with many publicly-held corporations, the possibility of a change of control of the Company may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Company;

WHEREAS, the board of directors of the Company have determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of key members of the Company's management to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change of control of the Company, although no such change is now contemplated;

WHEREAS, in order to induce the Executive to remain in the employ of the Company, the Company, for which certain of the employees of the Company, such as the Executive, provide key executive services, agree that the Executive shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) as a cushion against the financial and career impact on the Executive of any such Change of Control;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. For all purposes of this Agreement, the following terms shall have the meanings specified in this Section unless the context clearly otherwise requires:

(a) "Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(b) "Base Compensation" shall mean the average of the total cash base salary, annual bonus and dividend equivalents (paid under the Company's Equity Compensation Plan) received by the Executive in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise, and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options or the receipt of Restricted Stock granted to the Executive under the Company's Equity Compensation Plan and its predecessors or successors, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

(c) A Person shall be deemed the "Beneficial Owner" of any

securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or (iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of PSC; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

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(d) "Board" shall mean the board of directors of PSC.

(e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except PSC or its subsidiaries or any employee benefit plan of the PSC or its subsidiaries or of any Affiliate or Associate, any Person or entity organized, appointed or established by PSC or its subsidiaries for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by PSC's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

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(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity.

Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests

itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. section 2543(b)) as in effect on the date of adoption of the Plan.

(f) "Cause" shall mean 1) misappropriation of funds, 2) habitual insobriety or substance abuse, 3) conviction of a crime involving moral turpitude, or 4) gross negligence in the performance of duties, which gross negligence has had a material adverse effect on the business, operations, assets, properties or financial condition of the Company.

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(g) "Good Reason Termination" shall mean a Termination of Employment initiated by the Executive upon one or more of the following occurrences:

(i) any failure of the Company to comply with and satisfy any of the terms of this the Agreement;

(ii) any significant involuntary reduction of the authority, duties or responsibilities held by the Executive immediately prior to the Change of Control;

(iii) any involuntary removal of the Executive from the employment grade, compensation level or officer positions which the Executive holds with the Company or, if the Executive is employed by a Subsidiary, with a Subsidiary, held by him immediately prior to the Change of Control, except in connection with promotions to higher office;

(iv) any involuntary reduction in the Executive's target level of annual and long-term compensation as in effect immediately prior to the Change of Control;

(v) any transfer of the Executive, without his express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

(vi) the Executive being required to undertake business travel to an extent substantially greater than the Executive's business travel obligations immediately prior to the Change of Control.

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(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

(i) "Subsidiary" shall mean any corporation in which the Company, directly or indirectly, owns at least a 50% interest or an unincorporated entity of which the Company, directly or indirectly, owns at least 50% of the profits or capital interests.

(j) "Termination Date" shall mean the date of receipt of the Notice of Termination described in Section 2 hereof or any later date specified therein, as the case may be.

(k) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with the Company and any of its Subsidiaries that actually employs the Executive.

2. Notice of Termination. Any Termination of Employment following a Change of Control shall be communicated by a Notice of Termination to the other party hereto given in accordance with Section 14 hereof. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific provision in this Agreement relied upon, (ii) briefly summarizes the facts and circumstances deemed to provide a basis for the Executive's Termination of Employment under the provision so indicated, and (iii) if the Termination Date is other than the date of receipt of such notice, specifies the Termination Date (which date shall not be more than 15 days after the giving of such notice).

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, the Company shall pay to the Executive, upon the execution of a release in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions.

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(b) In the event the Executive's Normal Retirement Date would occur prior to 12 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 365 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two (2) years.

5. Trust Fund. PSC sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of PSC's President, as set forth in the agreement pursuant to which the fund has been established.

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6. Enforcement.

(a) In the event that the Company shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, the Company shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company

shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of the Company under this Agreement.

7. No Mitigation. The Executive shall not be required to mitigate the amount of any payment or benefit provided for in this Agreement by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for herein be reduced by any compensation earned by other employment or otherwise.

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8. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in or rights under any benefit, bonus, incentive or other plan or program provided by the Company, or any of its Subsidiaries or Affiliates, and for which the Executive may qualify.

9. No Set-Off. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others.

10. Taxes. Any payment required under this Agreement shall be subject to all requirements of the law with regard to the withholding of taxes, filing, making of reports and the like, and the Company shall use its best efforts to satisfy promptly all such requirements.

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d) (4) of the Code.

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(b) All determinations to be made under this Section 11 shall be made by the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon the Company and the Executive. The Executive shall then have the right to determine which of the Agreement Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company could have been made ("Underpayment"), in each case, consistent

with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and the Company shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company and its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 18 months after (a) the Executive's termination incurred for any reason other than a voluntary resignation or retirement (a Good Reason Termination shall not be deemed voluntary) or termination for Cause or (b) the termination of this Agreement, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Executive's termination had occurred on the date of the Change of Control.

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13. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or of any of its Subsidiaries that actually employ the Executive, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated with PSC to perform this Agreement in the same manner and to the same extent that PSC would be required to perform if no such succession or successions had taken place. Failure of PSC to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and the Company shall mean PSC and its Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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14. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to PSC to:

Philadelphia Suburban Corporation
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Attention: President

If to the Executive, to:

Mr. David P. Smeltzer
910 Ridgeview Lane
Lower Gwynedd, PA 19002

or to such other names or addresses as the Company or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by the Company following a Change of Control, notice at the last address of the Company or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

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15. Governing Law. This Agreement shall be governed by and interpreted under the laws of the Commonwealth of Pennsylvania without giving effect to any conflict of laws provisions.

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Executive and the Company's Chairman of the Company's Executive Compensation and Employee Benefits Committee, or its successor. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Executive. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by the Company or the Board.

17. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of the Company.

18. Successors and Assigns. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of PSC hereunder shall not be assignable in whole or in part.

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19. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances shall be determined to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions or applications of this Agreement which can be given effect without the invalid or unenforceable provision or application.

20. Remedies Cumulative; No Waiver. No right conferred upon

the Executive by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Executive in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

21. Miscellaneous. All section headings are for convenience only. This Agreement may be executed in several counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. The Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

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IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

ATTEST:
[Seal]

PHILADELPHIA SUBURBAN CORPORATION

/s/ Patricia M. Mycek

By /s/ Roy H. Stahl

Secretary

/s/ Grace J. Lennon

/s/ David P. Smeltzer

Witness

Executive

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FIRST MORTGAGE BONDS
1999 MEDIUM TERM NOTE SERIES

Up to U.S. \$300,000,000
Maturities from One Year to Thirty-Five Years

PLACEMENT AGENCY AGREEMENT

By and Among

PHILADELPHIA SUBURBAN WATER COMPANY
as Issuer

and

AGENTS LISTED ON SCHEDULE I ATTACHED HERETO

Dated December 3, 1999

PHILADELPHIA SUBURBAN WATER COMPANY
U.S. \$300,000,000
First Mortgage Bonds
1999 Medium Term Note Series

Maturities from One Year
to Thirty-Five Years from Date of Issue

Placement Agency Agreement

New York, New York

December 3, 1999

To Each of the Addressees Names
on Schedule I Hereto Acting
Severally and Not Jointly in the
Capacities of Agent and Purchaser
or in Either Such Capacity

Gentlemen and Ladies:

Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Issuer") which is a wholly-owned subsidiary of Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), confirms its agreement with you with respect to the issue and sale by the Issuer of its First Mortgage Bonds, 1999 Medium Term Note Series (the "Notes"). The Notes will be issued in one or more subseries under and secured in accordance with the Thirty-Third Supplemental Indenture dated as of November 15, 1999 (the "Supplemental Indenture") to the Indenture of Mortgage dated as of January 1, 1941 (the "Indenture of Mortgage") between the Issuer and Chase Manhattan Trust Company, National Association (as successor in interest to The Pennsylvania Company for Insurance on Lives and Granting Annuities), as Trustee (the "Trustee"). The Notes may be sold during the five year period from November 18, 1999 through November 17, 2004 (the "Offering Period"), by the Issuer in an aggregate principal amount of up to U.S. \$300,000,000.

It is understood, however, that the Issuer may from time to time, if permitted under the Indenture of Mortgage and pursuant to subsequent supplemental indentures, authorize the issuance of additional notes and that such additional notes may be sold through or to you subject to and in accordance with the terms of this Placement Agency Agreement (the "Agreement"), all as though the issuance of such additional Notes or the sale of Notes after the expiration of the Offering Period were authorized as of the date hereof. In addition, it is understood that the Issuer may from time to time during the Offering Period issue notes, bonds or other evidences of indebtedness to the extent permitted by the Indenture of Mortgage and any subsequent Supplemental Indenture.

The Notes will be offered during the Offering Period from time to time on a private placement basis without being registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon the exemption therefrom provided by Section 4(2) of the Securities Act. The Notes will be offered only to "Qualified Institutional Buyers" (as defined in Rule 144A under the Securities Act) pursuant to this Placement Agreement. All Notes having a common issue date, maturity date, interest rate and otherwise identical terms are referred to herein as a "Tranche". This Agreement is non-exclusive as the Notes of each Tranche may be offered through one or more Agents (hereinafter defined) pursuant to this Agreement. The Notes will be issued, and the terms thereof established, in accordance with the terms of the Indenture of Mortgage and the Supplemental Indenture, and in the case of Notes sold pursuant to Section 2(a), in accordance with the Medium Term Notes Administrative Procedures attached hereto as Exhibit A (the "Administrative Procedures"). The Notes will be payable in accordance with a Paying Agency Agreement dated December 3, 1999 (the "Paying Agency Agreement"), among the Issuer, Chase Manhattan Trust Company, National Association, as paying agent (the "Paying Agent"), the Trustee and the Agents. The Administrative Procedures set forth in Exhibit A shall remain in effect with respect to sales solicited by the Agents until changed by the Issuer, the Agents and the Paying Agent. For the purposes of this Agreement, the term "Agent" shall refer to each addressee named on Schedule I hereto acting severally and not jointly in the sole capacity as agent for the Issuer pursuant to Section 2(a) and not as principal; the term "Agents" shall refer in general terms to all addressees named on Schedule I acting in the capacity as agent to the Issuer pursuant to Section 2(a); the term "Purchaser" shall refer to the same addressees named on Schedule I hereto acting severally and not jointly in the sole capacity as principal pursuant to Section 2(b) and not as agent; and the term "you" shall refer to each or any addressee named on Schedule I hereto acting severally and not jointly in both such capacities or in either such capacity.

1. Representations and Warranties. The Issuer represents and warrants to you as of the date hereof, and shall be deemed to represent and warrant to you at and as of each time the Issuer gives a notice requesting you to solicit

offers as Agent, at and as of each acceptance of an offer by the Issuer, at and as of the date of each Terms Agreement (as defined in Section 2(b)), and upon the delivery to the purchaser (or its agent) pursuant to such offer or to the Purchaser of any Note pursuant to such Terms Agreement, as the case may be, that:

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(a) The Issuer confirms that it has prepared a confidential Offering Memorandum (defined below) and authorizes you to distribute copies thereof in connection with the offering of Notes as provided herein. The Offering Memorandum does not and will not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the foregoing representation and warranty shall not apply to statements or omissions in the Offering Memorandum made in reliance upon and in conformity with information furnished to the Issuer in writing by you or on your behalf which has been furnished by a person authorized to do so, specifically for use therein. As used in this Agreement, the term "Offering Memorandum" means the confidential offering memorandum dated the same date as this Agreement relating to the Notes, as it may be amended or supplemented from time to time, including with respect to each Tranche, the related pricing supplement (each, a "Pricing Supplement"), any documents expressly incorporated by reference therein and any quarterly or annual reports of the Issuer delivered to any Agent for delivery together with the Offering Memorandum, which amendment or supplement may be in the form of a separate document that does not state that it is a supplement to the Offering Memorandum, and any reference to the terms "amend", "amendment" or "supplement" with respect to the Offering Memorandum shall refer to and include the filings with the Securities and Exchange Commission (the "Commission") of any documents expressly incorporated by reference into the Offering Memorandum after the date hereof.

(b) The financial statements and schedules included in, or as an exhibit, attachment or appendix to, the Offering Memorandum present fairly the consolidated financial condition of the Issuer as of the respective dates thereof, and the consolidated results of operations and changes in financial condition of the Issuer for the respective periods covered thereby, all in conformity with generally accepted accounting principles applied on a consistent basis throughout the entire period involved, except as otherwise disclosed in the Offering Memorandum. KPMG LLP (the "Accountants"), who have reported on the annual financial statements and schedules of the Issuer, are independent certified public accountants with respect to the Issuer and its subsidiaries within the meaning of Rule 1.01 of the Code of Professional Conduct of the American Institute of Certified Public Accountants.

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(c) Subsequent to the respective dates as of which information is given in the Offering Memorandum, except as otherwise set forth therein, (i) there has been no material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise (a "Material Adverse Effect"), (ii) neither the Issuer nor any of its subsidiaries have incurred any material liabilities or obligations, direct or contingent, nor have any of them entered into any material transactions other than pursuant to this Agreement, the Supplemental Indenture and the Paying Agency Agreement and the transactions referred to herein and therein and (iii) no rating of any of the securities of the Issuer has been lowered by any "nationally recognized statistical rating organization" (as defined for purposes of Rule 436(g) of the Securities Act) (each, a "Rating Agency"), nor has there been any notice given by any Rating Agency of any intended or potential decrease in any such rating or of a possible

change in any such rating where such notice does not indicate the direction of the possible change.

(d) The Issuer and each of its subsidiaries is a corporation organized, validly existing and in good standing under the laws of its jurisdiction of incorporation. The Issuer and each of its subsidiaries has full power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and to conduct its business as described in the Offering Memorandum. The Issuer and each of its subsidiaries is duly licensed or qualified to do business and in good standing as a foreign corporation in all jurisdictions in which the nature of the activities conducted by it or the character of the assets owned or leased by it makes such license or qualification necessary, except where the failure to so qualify or be in good standing would not have a Material Adverse Effect.

(e) Except for stock of its subsidiaries, or as disclosed in the Offering Memorandum, the Issuer does not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, association or other entity, other than equity investments made by the Issuer for business development purposes or otherwise which are not material to the Issuer.

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(f) The Issuer has full corporate power and authority to enter into this Agreement, the Supplemental Indenture, and the Paying Agency Agreement, to issue the Notes, and to perform its obligations under this Agreement, the Supplemental Indenture, the Paying Agency Agreement and the Notes. This Agreement, the Indenture, the Supplemental Indenture and the Paying Agency Agreement have been duly authorized, executed and delivered by the Issuer and, when authorized, executed and delivered by the other parties hereto and thereto, will constitute valid and binding agreements of the Issuer and will be enforceable against the Issuer in accordance with their terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws affecting creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law). The Supplemental Indenture and the Paying Agency Agreement conform in all material respects to the descriptions thereof in the Offering Memorandum.

(g) The execution and delivery of the Notes has been duly authorized by all necessary corporate action on the part of the Issuer; each Note, when completed, executed, authenticated and delivered in accordance with the Indenture of Mortgage and the Supplemental Indenture against payment of the consideration therefor will constitute a legal, valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with the terms of such Note (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other similar laws affecting creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law), and will entitle its holder to the benefits of the Indenture of Mortgage and the Supplemental Indenture. Each Note will conform in all material respects to the description thereof in the Offering Memorandum.

(h) Other than the liens created by the Indenture of Mortgage as supplemented by supplemental indentures in accordance with the terms of the Indenture, including as supplemented by the Supplemental Indenture, the performance by the Issuer of this Agreement and the Paying Agency Agreement, the issuance of any Notes and the consummation of the transactions contemplated hereby and thereby will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Issuer or any of its subsidiaries pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of its obligations under, or

result in the acceleration of any obligation under, the certificate of incorporation or by-laws of the Issuer or any of its subsidiaries, any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, bond, debenture, note agreement or other evidence of indebtedness, lease, contract or other agreement or instrument to which the Issuer or any of its subsidiaries is a party or by which the Issuer or any of its subsidiaries or any of its properties is bound or affected, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulations of any court or governmental agency or body applicable to the business or properties of the Issuer or any of its subsidiaries.

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(i) Except as set forth in or contemplated by the Offering Memorandum, there are no actions, suits or proceedings pending or threatened against or affecting the Issuer or any of its subsidiaries, or any of their respective officers or directors in their capacity as such, before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding is likely that would materially and adversely affect (i) the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise, or (ii) the ability of the Issuer to perform its obligations under this Agreement, the Supplemental Indenture, the Paying Agency Agreement and the Notes. There are no such actions, suits or proceedings pending or, to the knowledge of the Issuer, threatened, relating to the Notes, their offering, or the Offering Memorandum.

(j) In each of the following cases except for such exceptions which would not have a Material Adverse Effect and do not interfere with the conduct of the business of the Company, the Issuer and each of its subsidiaries has (i) all governmental licenses, permits, consents, orders, approvals and other authorizations (collectively, "Approvals") necessary to carry on its business as described in the Offering Memorandum, (ii) complied with all laws, regulations and orders applicable to it or its business, and (iii) performed all its obligations required to be performed by it, and is not in default under any material contract or other instrument to which it is a party or by which its property is bound or affected. To the best knowledge of the Issuer, no other party under any material contract or other instrument to which it is a party is in default in any respect thereunder that would have a Material Adverse Effect. Neither the Issuer nor any of its subsidiaries is in violation of any provision of its certificate of incorporation or by-laws.

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(k) The Issuer and each of its subsidiaries has good and marketable title to all properties and assets described in the Offering Memorandum as owned by it, free and clear of all liens, charges, encumbrances or restrictions, except such as are described in the Offering Memorandum or are not material to the business of the Issuer or its subsidiaries. The Issuer and each of its subsidiaries has valid, subsisting and enforceable leases for the properties described in the Offering Memorandum as leased by it, with such exceptions as are not material and do not materially interfere with the use made and proposed to be made of such properties by the Issuer and such subsidiaries.

(l) No consent, approval, authorization or other order of, or any filing with, any government, governmental or other administrative agency or body is required in connection with the execution and delivery by the Issuer of this Agreement, the Supplemental Indenture and the Paying Agency Agreement, the solicitation of offers to purchase Notes, the issuance of any Note or the performance by the Issuer of any of its obligations hereunder or thereunder, except such as may be required under the blue sky laws of any jurisdiction in connection with the offering and sale of the Notes or as required by the Pennsylvania

Public Utility Commission. All necessary approvals have been obtained from the Pennsylvania Public Utility Commission to authorize the issuance and sale of the Notes and such approvals remain in full force and effect on the date hereof.

(m) The Notes satisfy the requirements set forth in paragraph (d) (3) of Rule 144A ("Rule 144A") under the Securities Act.

(n) Neither the Issuer nor any affiliate (which, for purposes of this Agreement, shall have the meaning given in Rule 501(b) under the Securities Act) of the Issuer has directly or indirectly, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any of the Notes or, within the six-month period prior to the date hereof, any other debt security of the same class as the Notes which is or will be integrated with any sale of the Notes in a manner that would require the registration of the Notes under the Securities Act or (ii) engaged or will engage in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in connection with the offering of the Notes.

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(o) Assuming (A) compliance by you with the offering and transfer procedures and restrictions described in the Offering Memorandum and under Rule 144A and Section 4(2) of the Securities Act, (B) the accuracy of the acknowledgments, representations, warranties and agreements made in accordance with this Agreement and the Offering Memorandum by you and the purchasers to whom you initially offer, sell or resell the Notes and (C) purchasers to whom you initially offer, sell or resell the Notes receive a copy of the Offering Memorandum prior to such sale or resale, the offer, sale and delivery of the Notes in the manner contemplated by this Agreement and the Offering Memorandum will be exempt from the registration requirements of the Securities Act by reason of Section 4(2) thereof, and the initial resale of the Notes in the manner contemplated by this Agreement will be exempt from the registration requirements of the Securities Act by reason of Rule 144A thereunder or Section 4(2) thereunder, as the case may be, and the Notes are not required to be issued pursuant to an indenture that qualifies under the Trust Indenture Act of 1939, as amended.

(p) Each Note will be an unconditional and direct debt obligation of the Issuer and will rank pari passu with other senior secured existing and future obligations of the Issuer.

(q) The Issuer is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(r) Neither the Issuer nor any agent thereof acting on behalf of the Issuer has taken or will take any action that is reasonably likely to cause this Agreement or the issuance or sale of the Notes to violate Regulation T, Regulation U or Regulation X (collectively, the "Margin Rules") of the Board of Governors of the Federal Reserve System.

(s) The Issuer is in material compliance with all applicable Federal, state and local environmental laws and regulations, including, without limitation, those applicable to safe drinking water, emissions to the environment, waste management and waste disposal (collectively, the "Environmental Laws"), except for such noncompliance as is not reasonably likely to have a Material Adverse Effect, or as disclosed in the Offering Memorandum, and, to the knowledge of the Issuer, there are no circumstances that would prevent, interfere with or materially increase the cost of such compliance in the future.

(t) Except as disclosed in the Offering Memorandum, there is no claim under any Environmental Law, including common law, pending or threatened against the Issuer (an "Environmental Claim") which would be reasonably likely to have a Material Adverse Effect and, to the knowledge of the Issuer, under applicable law, there are not past or present actions, activities, circumstances, events or incidents, including, without limitation, releases of any material into the

environment, that are reasonably likely to form the basis of any Environmental Claim against the Issuer which would be reasonably likely to have a Material Adverse Effect.

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(u) No statement, representation, warranty or covenant made by the Issuer in this Agreement, or made in any certificate or document required by this Agreement to be delivered to any Agent was or will be, when made, inaccurate, untrue or incorrect.

2. Appointment of an Agent; Solicitation by an Agent of Offers to Purchase; Sales of Notes to a Purchaser.

(a) (i) The Issuer shall deliver a Request for Bids with respect to a Tranche to each Agent via electronic transmission substantially in the form attached as Exhibit H hereto prior to 10:00 a.m. on any Business Day. Each Agent interested in submitting a bid for a particular Tranche shall submit such bid to the Issuer by 2:00 p.m. on the date of receipt of the Request for Bids or such later deadline as may be specified in writing by the Issuer. The Issuer, in its sole discretion and subject to its right to reject any and all bids for any reason, shall select one or more Agents to participate in offering of each Tranche. Subject to the terms and conditions set forth herein, Agents are to be appointed, in accordance with the terms of a Notice or Notices of Appointment (in the form attached as Exhibit I hereto) executed by the Issuer, to act as the Issuer's agent to accept offers for the purchase of Notes from the Issuer. The appointment by the Issuer of an Agent shall not authorize such Agent to take any action on behalf of the Issuer other than as set forth in this Agreement and the Administrative Procedures. Other than Section 4(a)(v) of this Agreement, this Agreement shall not in any way restrict or limit the Issuer from selling, offering to sell or accepting offers to sell any debt securities other than the Notes.

(ii) On the basis of the representations and warranties and subject to the terms and conditions, set forth herein, upon appointment pursuant to Notice of Appointment each Agent agrees, as agent of the Issuer, to use its reasonable efforts (commensurate with those efforts customarily made in offerings of a similar nature) to place the Notes on behalf of the Issuer upon the terms and conditions described in the Notice of Appointment, the Offering Memorandum and in the Administrative Procedures. In soliciting offers as agent, each Agent is acting solely as agent of the Issuer and not as principal. Each Agent shall use its reasonable efforts to assist the Issuer in obtaining performance by each purchaser whose offer to purchase Notes has been solicited by such Agent and accepted by the Issuer, however such Agent shall not have any liability to the Issuer in the event any such purchase is not consummated for any reason; provided that the foregoing shall not operate to release the Agent from any liability it may otherwise have as a result of its failure to perform its obligations under this Agreement. Except as provided in Section 2(b), under no circumstances will any Agent be obligated to purchase any Notes for its own account. It is understood and agreed, however, that any Agent may purchase Notes for its own account as Purchaser pursuant to Section 2(b) or otherwise as may be agreed or permitted by the Issuer and such Agent.

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(iii) The Issuer reserves the right, in its sole discretion, to instruct the Agents to suspend at any time, for any period of time or permanently, the solicitation of offers to purchase Notes. Within one business day of receipt of instructions to that effect from the Issuer, each Agent will forthwith suspend solicitation of offers to purchase Notes from the Issuer until such time as the Issuer has advised it that such solicitation may be resumed.

(iv) The Issuer agrees to pay each Agent a

commission, upon closing, with respect to each sale of Notes by the Issuer as a result of a solicitation made by such Agent, including any sale for the account of any affiliate of such Agent, in an amount equal to that percentage of the aggregate principal amount of the Notes sold by the Issuer specified on Schedule II hereto for Notes with the relevant term. Such commission shall be payable as specified in the Administrative Procedures.

(v) Subject to the provisions of this Agreement, the Notice of Appointment and the Administrative Procedures, offers for the purchase of Notes may be solicited by the Agent, as agent for the Issuer, at such time and in such amounts as the Agent and the Issuer deem advisable. The Issuer may, subject to Sections 4(a)(v) and 4(a)(xviii) of this Agreement, from time to time offer other debt obligations for sale on its own behalf directly to purchasers otherwise than through an Agent, in which case no commission would be payable with respect to such sale, provided such direct sales are made in compliance with all applicable law. As long as this Agreement shall be in effect, the Issuer shall not solicit or accept offers to purchase Notes through any agent other than Agents named on Schedule I hereto; provided, however, that the Issuer may amend Schedule I hereto from time to time to appoint additional Agents provided that the Issuer (i) has appointed such agent as an additional Agent hereunder on the same terms and conditions as provided herein for the Agents, and (ii) has caused such additional agent to execute this Agreement.

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(vi) Each Agent may, in the exercise of its reasonable discretion, reject any offer to purchase Notes received by it as agent of the Issuer and not communicate such offer to the Issuer. Each Agent shall communicate to the Issuer, orally or in writing, each such offer that it does not reject and, if such Agent or any of its affiliates shall be the offeror, shall advise the Issuer of that fact. The Issuer shall have sole and absolute discretion to accept any offer, and may reject any offer to purchase Notes in whole or, if permitted by the terms of such offer, in part.

(vii) If the Issuer shall default in its obligations to deliver Notes to a purchaser whose offer it has accepted, the Issuer shall hold you harmless against any loss, claim or damage arising from or as a result of such default by the Issuer (except to the extent that such default by the Issuer shall result from the failure by you to perform your obligations hereunder).

(b) (i) Subject to the terms and conditions stated herein, whenever the Issuer and any one (or more) of you jointly determine that the Issuer shall sell Notes directly to any one (or more) of you as the Purchaser, each such sale of Notes shall be made in accordance with the terms of this Agreement and, unless specifically waived by the Purchaser, a supplemental agreement relating thereto between the Issuer and the Purchaser. Each such supplemental agreement (which shall be substantially in the form of Exhibit B) is herein referred to as a "Terms Agreement". A Purchaser's commitment to purchase Notes pursuant to any Terms Agreement shall be deemed to have been made on the basis of the representations and warranties of the Issuer contained herein or therein (if any) and shall be subject to the terms and conditions set forth herein and in such Terms Agreement. Unless the context otherwise requires, each reference contained herein to "this Agreement" shall be deemed to include any applicable Terms Agreement between any one (or more) of you and the Issuer. Each Terms Agreement shall describe the Notes to be purchased by the Purchaser pursuant thereto, specify the principal amount of such Notes, the price to be paid to the Issuer for such Notes specified by reference to the principal amount of the Notes and the discount to the Purchaser from the principal amount thereof, the rate at which interest will be paid on such Notes, the date of issuance of such Notes (the "Closing Date"), the place of delivery of the Notes and payment therefor, the method of payment, any modification of, or addition to, the requirements for the delivery of the opinions of counsel set forth in Section 6(a)(ii), the certificates from the Issuer or its officers and the letter from the Issuer's independent certified public accountants, and such other terms and conditions as

may be specified therein from time to time. The discount to the Purchaser with respect to any Notes sold pursuant to this Section 2(b) shall be equal to that percentage of the principal amount thereof specified in Schedule II hereto for Notes with the relevant term, unless a higher percentage is specified in the applicable Terms Agreement.

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(ii) The settlement details for Notes sold to a Purchaser pursuant to any Terms Agreement shall be agreed to between the Issuer and such Purchaser in the respective Terms Agreement. If there is no such Terms Agreement, the settlement details specified in the Administrative Procedures shall apply with the Purchaser filling the roles specified therein of the Agent and the beneficial owner.

(iii) Nothing contained in this Agreement shall obligate an Agent to enter into a Terms Agreement with the Issuer or to otherwise agree to purchase Notes for its own account.

3. Offering and Sale of Notes. Each party hereto agrees to perform the respective duties and obligations specifically provided to be performed by it in the Administrative Procedures.

4. Agreements.

(a) The Issuer agrees with you that:

(i) If information that is material to an investment in a Note is not otherwise contained in the Offering Memorandum, or if at any time an event occurs as a result of which the Offering Memorandum as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at such time to amend or supplement the Offering Memorandum to comply with any applicable law, the Issuer promptly will prepare an amendment or supplement which will correct such statement or omission or effect such compliance, and will not effect any amendment or supplement to the Offering Memorandum without your consent, which consent shall not be unreasonably withheld; provided, however, that the foregoing consent requirement shall not apply to periodic and other filings with the Commission by the Issuer under the federal securities laws including, without limitation, Current Reports on Form 8-K, Quarterly Reports on Form 10-Q, or Annual Reports on Form 10-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act") ("Federal Securities Filings"). Neither your consent to, nor your delivery of, any such amendment or supplement shall constitute a waiver of any of the conditions set forth in Section 5 hereto.

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(ii) The Issuer shall furnish to you such information and documents relating to the business, operations and affairs of the Issuer, the Offering Memorandum and any amendments thereof or supplements thereto, the Notes, the Supplemental Indenture, this Agreement, any Terms Agreement, the Administrative Procedures, the Paying Agency Agreement and the performance by the parties hereto of their respective obligations hereunder and thereunder as you may from time to time and at any time prior to the termination of this Agreement reasonably request in connection with soliciting offers to purchase Notes. The Issuer shall notify you promptly (1) if at any time any event occurs which constitutes (or after notice or lapse of time or both would constitute) a default or an event of default under the Notes, the Supplemental Indenture, the Paying Agency Agreement, this Agreement or any agreement evidencing additional indebtedness of the Issuer or (2) of any material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in the financial condition, earnings, business or business

prospects or properties of the Issuer and its subsidiaries considered as a single enterprise.

(iii) The Issuer shall, whether or not any sale of Notes is consummated, (1) pay, or reimburse if paid by any Agent, all reasonable costs and expenses incident to the performance of its obligations under this Agreement and any Terms Agreement, including, but not limited to, the cost of preparation, printing or other production and delivery of the Offering Memorandum, all amendments thereof and supplements thereto, the Supplemental Indenture, the Paying Agency Agreement, this Agreement, any Terms Agreement and all other documents relating to the offering of Notes pursuant hereto and thereto, the cost of preparing, printing, packaging and delivering the Notes, the fees and disbursements of counsel to and accountants for the Issuer, the fees and disbursements of the Trustee, the fees and disbursements of the Paying Agent, and the fees of any Rating Agency, (2) reimburse you on a quarterly basis for all reasonable out-of-pocket expenses incurred by you in connection with this Agreement and the transactions contemplated hereby and (3) pay the reasonable fees and expenses of your counsel incurred in connection with this Agreement and the transactions contemplated hereby.

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(iv) On each date of settlement for any Tranche of Notes (a "Settlement Date"), or if at any time that the Offering Memorandum is amended or supplemented (excluding an amendment or supplement solely by reason of the incorporation of documents by reference), in the reasonable judgement of the Agent the information disclosed in such amendment or supplement is of such a nature that an officer's certificate and an opinion of counsel need be furnished, the Issuer shall deliver or cause to be delivered promptly to you an officer's certificate, an opinion of counsel and an opinion of its Senior Vice President-Law and Administration or General Counsel, dated the Settlement Date or the date of such amendment or supplement, as the case may be, in form reasonably satisfactory to the Agent, of the same tenor as the certificate and opinions referred to in Sections 5(a) (ii) and (iii), but modified to relate to the Offering Memorandum, this Agreement and the Paying Agency Agreement, each as then in effect.

(v) Unless otherwise specified in any Terms Agreement, the Issuer shall not, without the prior consent of the Purchaser thereunder, issue or announce the proposed issuance of any of its debt securities (including Notes), which are denominated in the same currency as, and have similar maturities, similar interest rates and other terms (including in respect of the method of computing interest) substantially similar to those of, the Notes being purchased pursuant to such Terms Agreement, during the period commencing on the date on which the Issuer accepts an offer to purchase any Note in accordance with such Terms Agreement and terminating on the Closing Date for the sale of such Note.

(vi) The Issuer shall furnish to you without charge, from time to time, as many copies of the following as you may reasonably request: (A) the Offering Memorandum and any amendment or supplement that has been prepared with respect thereto, (B) any Pricing Supplement, and (C) any financial statements and other periodic reports that the Issuer may furnish generally to holders of its debt securities.

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(vii) The Issuer shall furnish to you in written form all quarterly financial statement information for the first three fiscal quarterly periods of the Issuer promptly upon publication of such quarterly information and, within two months of the end of each such quarterly period, cause the Offering Memorandum to be supplemented to include such financial information and corresponding information for the comparable period of the preceding fiscal year, as well as such

other information and explanations as shall be necessary for an understanding of such financial information, which supplement may be in the form of a separate quarterly report, or a report filed by the Issuer under the Exchange Act.

(viii) The Issuer shall furnish to you the audited consolidated financial statements updating the audited consolidated financial statements and the financial information included in the Offering Memorandum for each corresponding fiscal year as promptly as practicable after the publication of such financial statements, but in any event not later than four months after the end of such fiscal year, and cause the Offering Memorandum to be supplemented to include such audited financial statements and the accountants' report with respect thereto, as well as such other information and explanations as shall be necessary for an understanding of such financial statements, which supplement may be in the form of a separate annual report or report filed by the Issuer under the Exchange Act.

(ix) The Issuer shall (1) furnish to you copies of any proposed supplement or amendment to the Offering Memorandum (including any document incorporated by reference therein) in advance of using such supplement or amendment, such copies, to the extent practicable, to be furnished to you five business days in advance of using such supplement or amendment, except for Federal Securities Filings, copies of which filings the Issuer will cause to be delivered to the Agent by facsimile or other means of delivery, on or prior to the date of filing with the Commission, and (2) permit you to review and comment as to the form and content thereof and, subject to the proviso in Section 4(a)(i), shall not use any such amendment or supplement to which you have reasonably objected in good faith; provided, however, that an amendment or supplement prepared to set forth terms and conditions of any Notes, including any Pricing Supplement, need not be furnished to or reviewed by those of you who are not named therein, who shall not have solicited offers for such Notes and who are not to be Purchasers of such Notes. Any Agent who shall have an objection in good faith to such proposed amendment or supplement may immediately terminate this Agreement as to such Agent by notice to the Issuer. At the request of any Agent so terminating, the Issuer shall promptly amend and supplement the Offering Memorandum and Schedule I hereto to indicate those firms that remain Agents.

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(x) The Issuer shall not offer or sell any securities under circumstances which would require the registration of any of the Notes under the Securities Act.

(xi) The Issuer will take appropriate steps to ensure that the aggregate principal amount of Notes issued during the Offering Period does not exceed U.S. \$300,000,000, will not issue any Notes if such issuance would cause such limit to be exceeded, will promptly notify you in the event that at any time such limit has been reached and will promptly notify you if such limit is increased pursuant to this Agreement.

(xii) The Issuer shall not, without having given prior written notice to you, consent to any amendment of the Paying Agency Agreement. The Issuer shall promptly notify you of any resignation or removal of the Paying Agent and the appointment of any successor thereto.

(xiii) For so long as any of the Notes are outstanding, the Issuer will provide to any holder of Notes that are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, and to any prospective purchaser of such Notes designated by a holder thereof, upon the request of such holder or prospective purchaser in connection with a transfer or proposed transfer pursuant to Rule 144A, any information required to be provided to such holder or prospective purchaser to comply with the conditions set forth in Rule 144A as in effect as of the date the Notes of the corresponding Tranche shall have been first issued (together with any such information added by an amendment to Rule 144A after such date, to

the extent such information can be provided without unreasonable additional expense to the Issuer).

(xiv) You shall not be liable or responsible to the Issuer for any losses, damages or liabilities suffered or incurred by the Issuer, including any losses, damages or liabilities under the Securities Act, arising from or relating to any resale or transfer of a Note by a holder (other than yourself) in any manner that does not comply with the applicable restrictions on resale and transfer or the procedures required for resale and transfer set forth herein, in the Offering Memorandum and in the Notes; provided that each of you, severally and not jointly, shall remain liable for the performance of your own obligations under this Agreement.

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(xv) The Issuer will at all times ensure that all approvals, authorizations, consents or other orders of, and all filings with, any governmental or other administrative agency or body will be, prior to the time required (taking into account any permitted extensions), obtained or made (1) so that the Issuer may lawfully perform its obligations under the Notes, the Supplemental Indenture, this Agreement, the Administrative Procedures and the Paying Agency Agreement and (2) so that performance of such obligations will, in all respects material to the Issuer and its subsidiaries considered as a single enterprise, or material to the Issuer's ability to perform its obligations under the Notes, the Supplemental Indenture, this Agreement, the Administrative Procedures and the Paying Agency Agreement, comply with any laws, decrees, regulations, judgments or orders of any court, government, governmental authority or agency to which the Issuer or any of its subsidiaries or any of their respective properties or assets is subject.

(xvi) During the Offering Period, the Issuer will send to you a copy of every notice of a meeting of the holders of the Notes (or any of them) that is sent by the Issuer or the Trustee to such holders at the same time it is sent to such holders and will promptly notify you immediately upon its becoming aware that a meeting of the holders of the Notes (or any of them) has been convened by any of such holders.

(xvii) During the Offering Period, the Issuer shall promptly notify you of any lowering in the ratings of any of the Issuer's securities by any Rating Agency, or of any notice given by any Rating Agency of any intended or possible decrease in any such rating or of any possible change in any such rating where such notice does not indicate the direction of the possible change.

(xviii) During the six-month period preceding and the six-month period following the issue date of any Note, neither the Issuer nor any affiliate of the Issuer will directly or indirectly, sell, offer for sale, solicit offers to buy or otherwise negotiate in respect of, any of the Notes or any other security (as defined in the Securities Act) which will be integrated with such sale of Notes in a manner that would require the registration of the Notes under the Securities Act.

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(xix) Until the expiration of two years after the issuance of each Tranche of Notes, the Issuer will not, and will cause its affiliates not to resell any Notes which are "restricted securities" (as such term is defined under Rule 144(a)(3) of the Act) whether as beneficial owner or otherwise (except as agent acting as a securities broker on behalf of and for the account of customers in the ordinary course of business in unsolicited broker's transactions).

(xx) The Issuer will apply the net proceeds from the offering and sale of the Notes in the manner set forth in the Offering Memorandum under "Use of Proceeds".

(b) The obligations of the Issuer under Sections 4(a)(i), (ii), (iv), (vi), (vii), (viii) and (ix) shall be suspended during any period of time during which the Issuer shall have suspended the solicitation of offers to purchase Notes by written notice to each Agent; provided, however, that such obligations of the Issuer shall remain in effect (i) for a period of two years following the date of notice of such suspension if such Agent shall own any Notes with the intention of reselling them as contemplated by Section 2(b) or (ii) if the Issuer has accepted an offer to purchase Notes solicited by such Agent pursuant to this Agreement and the settlement for such sale shall not have occurred. At least one week prior to the end of any such period during which solicitations shall have been suspended, the Issuer shall notify you of any event or change contemplated by Section 4(a)(i) or by the last sentence of Section 4(a)(ii) of which the Issuer would have been obligated to notify you, and shall provide you all written information, documents and supplements referred to in Sections 4(a)(ii), (iv), (vii), (viii) and (ix) that the Issuer would have been obligated to deliver to you, had the Issuer not so suspended the solicitation of offers.

5. Conditions to the Obligations of the Agent.

(a) The obligations of each Agent to solicit offers to purchase any Notes shall be subject to the accuracy of the representations and warranties on the part of the Issuer contained herein as of the date hereof and as of each time the Issuer gives a notice requesting any Agent to solicit offers as Agent, at and as of each acceptance of an offer by the Issuer and upon delivery of any Note to the purchaser (or its agent) pursuant to such offer, to the accuracy of the statements of the Issuer made in any certificates delivered pursuant to the provisions hereof as of the respective dates of such certificates, to the performance and observance by the Issuer of all covenants and agreements herein contained on its part to be performed and observed and to the following additional conditions precedent:

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(i) The Issuer shall have obtained all authorizations, consents and approvals of any court or governmental or other regulatory agency or body required in connection with the issuance and sale of the Notes and the performance of its obligations hereunder and under the Notes, the Notice of Appointment, the Supplemental Indenture and the Paying Agency Agreement.

(ii) The Issuer shall have furnished to you an accurate certificate dated as of the date thereof, signed by the Chief Executive Officer or the Chief Financial Officer of the Issuer, in form and substance satisfactory to you, to the effect that, to the best of his or her knowledge after reasonable inquiry:

(1) the representations and warranties of the Issuer in this Agreement are true and correct in all material respects on and as of the date of the certificate and the Issuer has performed in all material respects all its obligations and satisfied all the conditions on its part to be satisfied at or prior to the date of the certificate;

(2) since the date of the most recent financial statements included in the current Offering Memorandum, there has been no material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise, except as set forth in the Offering Memorandum; and

(3) the Offering Memorandum (other than statements made therein in reliance upon and in

conformity with information furnished to the Issuer in writing by any Agent specifically for use therein, as to which no representation shall be made) does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(iii) (A) The Issuer shall have furnished to each Agent the opinion of Dilworth Paxson LLP, counsel to the Issuer, substantially in the form of Exhibit C hereto, which may be subject to any assumptions, qualifications and limitations that are reasonably acceptable to each Agent.

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(B) The Issuer shall have furnished to each Agent and to Dilworth Paxson LLP the opinion of the Senior Vice President-Law and Administration or General Counsel of the Issuer substantially in the form of Exhibit D hereto, which may be subject to any assumptions, qualifications and limitations that are reasonably acceptable to each Agent.

(iv) Each Agent shall have received from Chase Manhattan Trust Company National Association, as Trustee under the Indenture of Mortgage and the Supplemental Indenture, a certificate substantially in the form of Exhibit E hereto, which may be subject to any assumptions, qualifications and limitations that are reasonably acceptable to each Agent.

(v) Each Agent shall have received from your counsel such opinion with respect to the proposed issue and sale of the Notes and other related matters as the Agent may reasonably require.

(vi) KPMG LLP, independent accountants for the Issuer, shall have furnished to the Agent an executed copy of a letter in the form attached hereto as Exhibit F.

(vii) The Issuer shall have furnished to each Agent such further information, certificates and documents as any Agent may reasonably request.

(viii) The documents required to be delivered by this Section 5 shall be delivered at, or transmitted by telecopy (with an undertaking promptly to forward the original copies thereof) to, the offices of Dilworth Paxson LLP, counsel for the Issuer, 3200 Mellon Bank Center, 1735 Market Street, Philadelphia, PA 19103, at 4:00 P.M., Philadelphia time, on the date thereof, and an original of each such document will be sent to you.

(b) Each of the conditions precedent in clauses (i) through (viii) above shall be satisfied on each Settlement Date unless waived by the Agent or Agents appointed for the relevant Tranche, at the sole discretion of such Agent or Agents. Each of the items listed in clauses (ii), (iii) and (iv) above shall be dated the applicable Settlement Date. The items listed in clause (vi) shall be dated the applicable Settlement Date, if the Company shall have prepared updated quarterly or annual financial statements since the date of the last such letter delivered to you.

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6. Conditions to the Obligations of a Purchaser.

(a) The obligations of any Purchaser to purchase any Notes shall be subject to the accuracy of the representations and warranties on the part of the Issuer contained herein or in the corresponding Terms Agreement, if any, at and as of the date of the corresponding Terms Agreement and upon the delivery to any Purchaser of any Note

pursuant to such Terms Agreement, to the performance and observance by the Issuer of all covenants and agreements herein or therein contained on its part to be performed and observed and to the following additional conditions precedent:

(i) The Issuer shall have obtained all authorizations, consents and approvals of any court or governmental or other regulatory agency or body required in connection with the issuance and sale of the Notes and the performance of its obligations hereunder and under the Notes, the Notice of Appointment, the Supplemental Indenture and the Paying Agency Agreement.

(ii) To the extent provided by such Terms Agreement, the Purchaser shall have received, appropriately updated, (1) a certificate of the Issuer dated as of the Closing Date to the effect set forth in Section 5(a)(ii), (2) the opinion of Dilworth Paxson LLP dated the Closing Date to the effect set forth in Section 5(a)(iii)(A), (3) the opinion of the Senior Vice President-Law and Administration or General Counsel, dated the Closing Date to the effect set forth in Section 5(a)(iii)(B), (4) the Trustee's certificate dated the Closing Date to the effect set forth in Section 5(a)(iv), (5) the opinion of your counsel dated the Closing Date to the effect set forth in Section 5(a)(v) and (6) the letter of KPMG LLP dated the Closing Date to the effect set forth in Section 5(a)(vi).

(iii) Prior to the Closing Date, the Issuer shall have furnished to the Purchaser such further information, certificates and documents as the Purchaser may reasonably request.

(b) If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement and any Terms Agreement, or if any other event occurs which permits cancellation under this Agreement, such Terms Agreement and all obligations of the Purchaser thereunder and with respect to the Notes subject thereto may be canceled at, or at any time prior to, the respective Closing Date by the Purchaser. Notice of such cancellation shall be given to the Issuer in writing or by telephone, promptly confirmed in writing, which confirmation may be made by telex or telecopy.

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7. Conditions to all Purchases. The consummation of the sale of any Note pursuant to this Agreement shall be subject to the further condition that, at the date of issuance thereof, in the reasonable judgment of the Purchaser or the Agent that obtained the offer, (a) each condition set forth in Section 5 or 6, as applicable, shall have been satisfied and (b) subsequent to the respective dates as of which information is given in the Offering Memorandum (current as of the date of such agreement to purchase a Note), except as set forth therein or contemplated thereby, there shall not have occurred any material adverse change, or to the knowledge of the Issuer any development involving a prospective material adverse change, in or affecting the financial condition, earnings, business or business prospects or properties of the Issuer and its subsidiaries, considered as a single enterprise, the effect of which makes it impracticable or inadvisable to market the Notes or to proceed with completion of the sale and payment for such Notes.

8. Restrictions on Offers and Sales of the Notes. Each party hereto represents, warrants and agrees, severally and not jointly, as follows:

(a) It will solicit offers to purchase Notes only from, and it will offer and sell Notes only to, (i) institutional purchasers that are, or that it reasonably believes are, "qualified institutional buyers" as such term is defined in paragraph (a)(1) of Rule 144A ("QIBs") or (ii) any Agent. If it is an Agent, any resales or transfers of Notes through, or arranged by, such Agent similarly will be made only to QIBs. Neither it, its affiliates, nor any person acting on its or their behalf (except that no representation is made with respect to any other party to this Agreement) has engaged or will engage in any form of general solicitation or general advertising (within the meaning of Rule 502(c) under the Securities Act) in the United States with respect to the Notes.

(b) It will make reasonable inquiry to determine whether a purchaser is purchasing for such purchaser's own account as a QIB or for the account of others and not with a view to, or for sale in connection with, the public distribution thereof in any transaction that would be in violation of Federal or state securities laws and, in the case of any purchaser acting on behalf of one or more third parties, it shall make reasonable inquiry to determine that each such third party is a QIB and that the amount being purchased on behalf of each such third party is not less than the authorized minimum denomination of such Notes; provided that the Issuer shall have no duty to make any such inquiry in connection with sales to any Agent or pursuant to offers transmitted to it by any Agent.

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9. Indemnification and Contribution.

(a) The Issuer agrees to indemnify and hold harmless each Agent and each person who controls any Agent within the meaning of either the Securities Act or Section 20 of the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which any such person may become subject under the law of any jurisdiction insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement of a material fact contained in the Offering Memorandum, in any amendment thereof or supplement thereto or in any information provided by the Issuer and furnished to any purchaser of the Notes pursuant to Section 4(a)(xiii), or arise out of or are based upon the omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that (i) the Issuer will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or omission made in the Offering Memorandum or in any amendment thereof or supplement thereto in reliance upon and in conformity with written information furnished to the Issuer by the person seeking indemnification, or on behalf of another person authorized to do so, specifically for use in connection with the preparation thereof. This indemnity will be in addition to any liability which the Issuer may otherwise have.

(b) Each Agent, severally and not jointly, agrees to indemnify and hold harmless the Issuer and each person who controls the Issuer within the meaning of either the Securities Act or the Exchange Act, to the same extent as the foregoing indemnity from the Issuer, but only with reference to written information relating to the indemnifying party furnished to the Issuer by it, or on its behalf by a person authorized to do so, specifically for use, in the preparation of the Offering Memorandum or any amendment thereof or supplement thereto. This indemnity will be in addition to any liability which any Agent may otherwise have.

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(c) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 9, notify the indemnifying party in writing of the commencement thereof; however, the omission so to notify the indemnifying party (i) will not relieve it from any liability under paragraph (a) or (b) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of any substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the

indemnification obligation provided in paragraph (a) or (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein, and to the extent that it may elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel satisfactory to such indemnified party; provided, however, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assert such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action and approval by the indemnified party of counsel (which approval shall not be unreasonably withheld), the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in connection with the assertion of legal defenses in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to any local counsel), representing the indemnified parties under paragraph (a) of this Section 9 who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party; and except that, if clause (i) or (iii) is applicable, such liability shall be only in respect of the counsel referred to in such clause (i) or (iii). The indemnifying party shall not be liable for any settlement of any action or claim effected without its consent, which consent shall not be unreasonably withheld.

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(d) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in this Section 9 is due in accordance with its terms but is for any reason held by a court to be unavailable on grounds of policy or otherwise, the Issuer and each Agent shall contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) to which the Issuer and any Agent may be subject in such proportion so that each Agent is responsible only for that portion represented by the percentage that the aggregate commissions received by each such Agent pursuant to Section 2 in connection with the Notes from which such losses, claims, damages and liabilities arise (or, in the case of Notes sold to a Purchaser, the discount to such Purchaser), bears to the aggregate principal amount of such Notes sold, and the Issuer is responsible for the balance; provided, however, that in no case shall any Agent be responsible for any amount in excess of the commissions received by each such Agent in connection with the Notes from which such losses, claims, damages and liabilities arise (or, in the case of Notes sold to the Purchaser, the discount to such Purchaser). For purposes of this Section 9, each person who controls any Agent within the meaning of either the Securities Act or the Exchange Act shall have the same rights to contribution as such Agent and each person who controls the Issuer within the meaning of either the Securities Act or the Exchange Act shall have the same rights to contribution as the Issuer, subject in each case to the proviso to the preceding sentence. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution hereunder from any person who was not guilty of such fraudulent misrepresentation. Any party entitled to contribution will, promptly after receipt of notice of commencement of any action, suit or

proceeding against such party in respect of which a claim or contribution may be made against another party or parties under this paragraph (d), notify such party or parties from whom contribution may be sought (which obligation to give notice shall be deemed to be satisfied by the delivery of notice pursuant to paragraph (c) of this Section 9), but the omission so to notify such party or parties shall not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have hereunder or otherwise than under this paragraph (d).

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10. Termination.

(a) This Agreement will continue in effect until terminated as provided in this Section 10 or Section 4(a)(ix). This Agreement may be terminated by the Issuer as to any Agent or, in the case of any Agent by such Agent, by giving at least 30 days' written notice of such termination to the other parties hereto, at which time the Issuer shall cause Schedule I hereto to be amended. Notwithstanding any such termination, the rights and liabilities of each party under Sections 2(a)(iv) and (vii), Sections 4(a)(iii), (xiv) and (xvi), Sections 8(a) and (b) (with respect to resales and transfers of Notes), Section 9, Section 11 and any Terms Agreement executed prior to the date of termination hereof shall survive any termination of this Agreement, in whole or in part. In addition, if any termination shall occur either (i) at a time when any Purchaser shall own any Notes, purchased under this Agreement from the Issuer, with the intention of reselling them or (ii) after the Issuer has accepted an offer to purchase Notes and prior to the related settlement, all agreements, terms and conditions relating to the purchase and sale of such Notes shall also remain in effect.

(b) Each agreement to purchase Notes pursuant to a solicitation by an Agent hereunder, and each agreement by a Purchaser to purchase Notes hereunder, shall be subject to termination in the absolute discretion of such Agent or the Purchaser (as the case may be), by notice given to the Issuer prior to delivery of any payment for Notes to be purchased, if prior to such time (i) trading in any securities issued by the Issuer or by PSC shall have been suspended or halted on any exchange (whether U.S. or foreign), or trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum or maximum prices shall have been generally established on such Exchange, or additional material government restrictions, not in force on the date of this Agreement or the date of any Terms Agreement with respect to such Notes, shall have been imposed upon trading in securities generally by such Exchange or by order of the Commission or any court or other governmental authority, (ii) a general banking moratorium shall have been declared by either U.S. Federal or New York State authorities, (iii) there shall have been a lowering in the ratings of any of the Issuer's securities by any Rating Agency or a notice given by any Rating Agency of any intended or potential decrease in any such rating or of any possible change in any such rating where such notice does not indicate the direction of the possible change, or (iv) there shall have occurred any material adverse changes in the financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis in national or international political, financial or economic conditions that makes it in the reasonable judgment of such Agent or Purchaser (as the case may be) impracticable or inadvisable to market the Notes or to proceed with completion of the sale of and payment for such Notes.

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11. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Issuer or its officers and of the Agent set forth in or made pursuant to this

Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Agent or by or on behalf of the Issuer or any of the controlling persons referred to in Section 9, and will survive delivery of and payment for the Notes.

12. Increases in the Amount of the Notes; Extension of Offering Period. The aggregate principal amount of Notes that may be sold by the Issuer may be increased, or the Offering Period may be extended, if permitted under the Indenture of Mortgage and pursuant to the laws of the Commonwealth of Pennsylvania, pursuant to (x) a subsequent supplemental indenture to the Indenture of Mortgage and (y) an amendment to this Agreement in the form attached hereto as Exhibit G executed by the Issuer and the Agent named in Schedule I hereto. Upon the execution and delivery of any such amendment, to the extent agreed upon by the Issuer and the Agent, the Issuer shall deliver to such Agent, appropriately updated, (a) a certificate of the Issuer dated as of the date of such amendment to the effect set forth in Section 5(a)(ii), (b) the opinion of Dilworth Paxson LLP dated the date of such amendment to the effect set forth in Section 5(a)(iii)(A), (c) the opinion of its Senior Vice President-Law and Administration or General Counsel, dated the Closing Date to the effect set forth in Section 5(a)(iii)(B), (d) the certificate of the Trustee dated the date of such amendment to the effect set forth in Section 5(a)(iv), and (e) the letter of KPMG LLP dated the date of such amendment to the effect set forth in Section 5(a)(vi), and the Issuer shall furnish to you such further information, certificates and documents as you may reasonably request.

13. Notices. All communications hereunder will be in writing, and effective only on receipt, or (but only where specifically provided in the Administrative Procedures) by telephone and, if sent to the Agent, will be mailed, delivered, telecopied and confirmed or telexed and confirmed to the Agent, at the address(es) specified in Schedule I hereto; or, if sent to the Issuer, will be mailed, delivered, telecopied and confirmed or telexed and confirmed to it at 762 Lancaster Avenue, Bryn Mawr, PA 19010, Attention: Treasurer, (telephone: (215) 527-8000; telecopy: (215) 645-1141).

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14. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the controlling persons referred to in Section 9, and no other person will have any right or obligation hereunder.

15. Applicable Law. THIS AGREEMENT WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE Commonwealth of Pennsylvania (EXCLUDING LAWS GOVERNING CONFLICTS OF LAW).

16. Counterparts. This Agreement may be signed in counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

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If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement between the Issuer and you.

Very truly yours,

PHILADELPHIA SUBURBAN WATER
COMPANY,

By: /s/ Kathy L. Pape

Name: Kathy L. Pape
Title: Vice President and
Treasurer

[confirmations and acceptances on following pages]

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The foregoing Placement Agency Agreement is hereby confirmed and accepted as of the date hereof.

A.G. Edwards & Sons

By: /s/ Lester H. Krone

Lester H. Krone:
Managing Director
Investment Banking

Janney Montgomery Scott, Inc.

By: /s/ Anthony J. Spatacco, Jr.

Anthony J. Spatacco, Jr.
Vice President

First Union Securities, Inc.

By: /s/ William Ingram

William Ingram
Managing Director

PaineWebber Incorporated

By: /s/ David Zahka

Name: David Zahka
Title: Senior Vice President

PNC Capital Markets, Inc.

By: /s/ Robert W. Thomas

Name: Robert W. Thomas
Title: Managing Director

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By: /s/ Scott Primrose

Name: Scott Primrose
Title: Authorized Signatory

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SCHEDULE I

Placement Agents:

A.G. Edwards & Sons
1 North Jefferson
St. Louis, MO 63103

Lester Krone

Phone: (314) 955-2358
Fax: (314) 955-7387

Janney Montgomery Scott, Inc.
Times Bldg., Suite 400
Suburban Square
Ardmore, PA 19003-2415

Anthony Spatacco

Phone: (610) 896-2800
Fax: (610) 896-9943

PaineWebber Incorporated
1285 Avenue of the Americas
New York, NY 10019

David Zahka

Phone: (212) 713-2960
Fax: (212) 247-0371

First Union Securities, Inc.
One First Union Center
301 South College Street
Charlotte, NC 28288-0735

Jim Williams

PNC Capital Markets, Inc
One PNC Plaza
249 Fifth Avenue
26th Floor, Pittsburgh PA 15222

Robert Thomas

Merrill Lynch & Co.
World Financial Center
North Tower
New York, NY 10281-1311

Timothy Sheerer

Phone: (212) 449-1727
Fax: (212) 449-0599

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SCHEDULE II

The Issuer agrees to pay each Agent a commission equal to the following percentage of the principal amount of each Note sold by the Agent, and to pay the Purchaser a commission in the form of a discount to the purchase price equal to the following percentage of the principal amount of each Note purchased by a Purchaser under Section 2(b):

Term	Commission Rate
----	-----
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.150%
From 18 months to less than 2 years	.200%
From 2 years to less than 3 years	.250%
From 3 years to less than 4 years	.350%
From 4 years to less than 5 years	.450%
From 5 years to less than 6 years	.500%
From 6 years to less than 7 years	.550%
From 7 years to less than 10 years	.600%
From 10 years to less than 15 years	.625%
From 15 years to less than 20 years	.700%
From 20 years up to and including 35 years	.750%

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EXHIBIT A

MEDIUM TERM NOTE ADMINISTRATIVE PROCEDURES

December 3, 1999

First Mortgage Bonds, 1999 Medium Term Notes Series (the "Notes"), due from one year to thirty-five years, are to be offered on a continuing basis during the five year period from November 18, 1999 through November 17, 2004. The Agent or Agents listed on Schedule I to the Placement Agency Agreement (collectively, the "Agent") have agreed to use reasonable efforts to solicit offers to purchase Notes in fully registered form. The Agent may also purchase Notes as principal for resale, but no Agent will be obligated to purchase Notes for its own account. One or more of the Agents may participate in the placement or purchase of the Notes of each Tranche upon their receipt of a Notice of Appointment from the Issuer for said Tranche.

The Notes are being sold pursuant to a Placement Agency Agreement between the Issuer and the Agent dated as of the date hereof (the "Placement Agency Agreement"). The Notes will be issued under and secured in accordance with the Thirty-Third Supplemental Indenture dated as of November 15, 1999 (the "Supplemental Indenture") to the Indenture of Mortgage dated as of January 1, 1941 (the Indenture of Mortgage") between the Issuer and Chase Manhattan Trust Company, National Association (as successor trustee to The Pennsylvania Company for Insurance on Lives and Granting Annuities), as Trustee (the "Trustee").

All Notes shall be represented by Global Securities (as defined hereinafter) registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), and beneficial ownership of such Notes will be represented and maintained in book-entry form on the books of DTC (the "Book-Entry Notes"). An owner of a Book-Entry Note will not be entitled to receive a certificate representing such Note. However, if DTC is at any time unwilling or unable to continue as depository and a successor depository is not appointed by the Issuer within 90 days, the Issuer will issue Notes in definitive registered form (the "Certificated Notes") in exchange for the Global Security or Securities representing such Notes. In addition, the Issuer may at any time and in its sole discretion determine not to have some of or all the Notes represented by one or more Global Securities and, in such event, will issue certificated Notes in exchange for all of the Global Securities representing such Notes. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery of Certificated Notes represented by such Global Security equal in amount to that represented by such beneficial interest and to have such Certificated Notes registered in its name.

The procedures to be followed during, and the specific terms of, the solicitation of offers by each Agent and the sale as a result thereof by the Issuer are explained below. Administrative and record-keeping responsibilities will be handled for the Issuer by its Treasurer. The Issuer will advise each Agent and the Trustee in writing of those persons handling administrative responsibilities with whom the Agent and the Trustee are to communicate regarding offers to purchase Notes and the details of their delivery. The Issuer will promptly advise each Agent and the Trustee in writing if any such person shall cease to handle such responsibilities or of the authorization of any additional person to handle such responsibilities.

Administrative procedures and specific terms of the offering are explained below. Book-Entry Notes will be issued in accordance with the administrative procedures set forth in Part I hereof, as adjusted in accordance with changes in DTC's operating requirements, and Certificated Notes will be issued in accordance with the administrative procedures set forth in Part II hereof. Capitalized terms not defined herein shall have the meanings assigned in the Placement Agency Agreement or, if not defined therein, in the Supplemental Indenture or the Offering Memorandum. To the extent the procedures set forth below conflict with the provisions of the Notes, the Indenture of Mortgage, the Supplemental Indenture, DTC's operating requirements or the Placement Agency Agreement, the relevant provisions of the Notes, the Indenture of Mortgage, the Supplemental Indenture, DTC's operating requirements and the Placement Agency Agreement shall control.

Administrative Procedures for
Book-Entry Notes

In connection with the qualification of the Book-Entry Notes for eligibility in the book-entry system maintained by DTC, the Trustee will perform the custodial, document control and administrative functions assigned to it as described below, unless certain duties are otherwise designated to a duly authorized paying agent, in accordance with its respective obligations under a Letter of Representations from the Issuer and the Trustee to DTC dated as of the date hereof and a Medium Term Note Certificate Agreement between The Chase Manhattan Bank and DTC dated as of December 2, 1988, as amended, and its obligations as a participant in DTC, including DTC's Same-Day Funds Settlement system ("SDFS").

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Issuance:

On any date of settlement (as defined under "Settlement" below) for one or more Notes, the Issuer will issue a single global security in fully registered form without coupons (a "Global Security") representing all such Notes that have the same rank (senior or subordinated), original issue date, original issue discount provisions, if any, Interest Payment Dates, Record Dates, Interest Payment Period, redemption provisions, if any, tender provisions, if any, Maturity Date, and interest rate (collectively, the "Terms"). Each Global Security will be dated and issued as of the date of its authentication by the Trustee. Each Global Security will bear an original issue date, which will be (i) with respect to an original Global Security (or any portion thereof), the original issue date specified in such Global Security and (ii) following a consolidation of Global Securities, with respect to the Global Security resulting from such consolidation, the most recent Interest Payment Date to which interest has been paid or duly provided for on the predecessor Global Securities, regardless of the date of authentication of such resulting Global Security. No Global Security will represent any Certificated Note.

Identification
Numbers:

The Issuer has arranged with the CUSIP Service Bureau of Standard & Poor's (the "CUSIP Service Bureau") for the reservation of one series of CUSIP numbers, which consists of approximately 900 CUSIP numbers and relates to Global Securities representing Book-Entry Notes. The Issuer has obtained from the CUSIP Service Bureau a written list of such reserved CUSIP numbers, which the Issuer shall deliver to the Trustee and DTC. The Issuer will assign CUSIP numbers to Global Securities as described below under Settlement Procedure "B". DTC will notify the CUSIP Service Bureau periodically of the CUSIP numbers that the Issuer has assigned to Global Securities. At any time when fewer than 100 of the reserved CUSIP numbers remain unassigned to Global Securities for either series, if it deems necessary, the Issuer will reserve additional CUSIP numbers for assignment to Global

Securities. Upon obtaining such additional CUSIP numbers, the Issuer shall deliver a list of such additional CUSIP numbers to the Trustee and DTC.

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Registration:

Global Securities will be issued only in fully registered form without coupons. Each Global Security will be registered in the name of Cede & Co., as nominee for DTC, on the securities register for the Notes maintained under the Indenture of Mortgage. The beneficial owner of a Book-Entry Note (or one or more indirect participants in DTC designated by such owner) will designate one or more participants in DTC (with respect to such Book-Entry Note, the "Participants") to act as agent or agents for such owner in connection with the book-entry system maintained by DTC, and DTC will record in book-entry form, in accordance with instructions provided by such Participants, a credit balance with respect to such beneficial owner in such Book-Entry Note in the account of such Participants. The ownership interest of such beneficial owner (or such Participant) in such Book-Entry Note will be recorded through the records of such Participants or through the separate records of such Participants and one or more indirect participants in DTC.

Transfers:

Transfers of a Book-Entry Note will be accomplished by book entries made by DTC and, in turn, by Participants (and, in certain cases, one or more indirect participants in DTC) acting on behalf of beneficial transferors and transferees of such Note.

Exchanges:

The Trustee may deliver to DTC and the CUSIP Service Bureau at any time a written notice of consolidation (a copy of which shall be attached to the resulting Global Security described below) specifying (i) the CUSIP numbers of two or more Outstanding Global Securities that represent fixed rate Notes having the same Terms and for which interest has been paid to the same date, (ii) a date, occurring at least thirty (30) days after such written notice is delivered and at least thirty (30) days before the next Interest Payment Date for such Book-Entry Notes, on which such Global Securities shall be exchanged for a single replacement Global Security and (iii) the single CUSIP number to be assigned to such replacement Global

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Security (which shall be the CUSIP number previously assigned to the Global Security with the earliest date of issuance). Upon receipt of such a notice, DTC will send to its Participants (including the Trustee) a written

reorganization notice to the effect that such exchange will occur on such date. Prior to the specified exchange date, the Trustee will deliver to the CUSIP Service Bureau a written notice setting forth such exchange date and such single CUSIP number and stating that, as of such exchange date, the CUSIP numbers of the individual Global Securities not assigned to the replacement Global Security will no longer be valid. On the specified exchange date, the Trustee will exchange such Global Securities for a single Global Security bearing the single CUSIP number and the CUSIP numbers of the individual Global Securities not assigned will, in accordance with CUSIP Service Bureau procedures, be retired and not reassigned. Each Book-Entry Note will mature on a date not less than one year nor more than thirty-five years after the settlement date for such Note.

Denomination:

Book-Entry Notes will be issued in a minimum principal amount of \$100,000 or an integral multiple of \$1,000 in excess thereof. Global Securities will be denominated in principal amounts not in excess of \$150,000,000. If one or more Book Entry Notes having an aggregate principal amount in excess of \$150,000,000 would, but for the preceding sentence, be represented by a single Global Security, then one Global Security will be authenticated and issued to represent each \$150,000,000 principal amount of such Book-Entry or Notes and an additional Global Security will be authenticated and issued to represent any remaining principal amount of such Book-Entry Note or Notes. In such a case, each of the Global Securities representing such Book-Entry Note or Notes shall be assigned the same CUSIP number.

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Interest:

General. Interest, if any, on each Book-Entry Note will accrue from the original issue date for the first interest period or the last date to which interest has been paid, if any, for each subsequent interest period, on the Global Security representing such Book-Entry Note, and will be calculated and paid in the manner described in such Book-Entry Note and in the Offering Memorandum (as defined in the Placement Agency Agreement), as supplemented by the applicable Pricing Supplement thereto. Unless otherwise specified therein, each payment of interest on a Book-Entry Note will include interest accrued up to but excluding the Interest Payment Date or up to but excluding the Maturity Date. Interest payable upon Maturity of a Book-Entry Note will be payable to the Person to whom the principal of such Note is payable. Standard & Poor's Corporation will use the information received in the pending deposit message described under Settlement Procedure "C" below in order

to include the amount of any interest payable and certain other information regarding the related Global Security in the appropriate (daily or weekly) bond report published by Standard & Poor's Corporation.

Record Dates. The Record Date with respect to any Interest Payment Date shall be the December 15 or June 15 immediately preceding such Interest Payment Date, whether or not such date shall be a Business Day.

Interest Payment Dates. Interest payments will be made semiannually on January 1 and July 1 of each year and at Maturity or earlier redemption or Tender; provided, however, that in the case of a Book-Entry Note issued between a Record Date and an Interest Payment Date, or on an Interest Payment Date, the first interest payment will be made on the Interest Payment Date following the next succeeding Record Date. If any Interest Payment Date for a Book-Entry Note is not a Business Day, the payment due on such day shall be made on the next succeeding Business Day and no interest shall accrue on such payment for the period from and after such Interest Payment Date.

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Calculation of Interest:

Book-Entry Notes. Interest on Book-Entry Notes (including interest for partial periods) will be calculated on the basis of a 360-day year of twelve 30-day months.

Payments of Principal and Interest:

Payment of Interest Only. Promptly after each Record Date, the Trustee will deliver to the Issuer and DTC a written notice setting forth, by CUSIP number, the amount of interest to be paid on each Global Security on the following Interest Payment Date (other than an Interest Payment Date coinciding with Maturity or earlier redemption or Tender of such Global Security) and the total of such amounts. DTC will confirm the amount payable on each Global Security on such Interest Payment Date by reference to the appropriate (daily or weekly) bond reports published by Standard & Poor's Corporation. The Issuer will pay to the Trustee, as paying agent, the total amount of interest due on such Interest Payment Date (other than at Maturity or earlier redemption or Tender of such Global Security), and the Trustee will pay such amount to DTC, at the times and in the manner set forth below under "Manner of Payment".

Payments at Maturity. On or about the last Business Day of each month, the Trustee will deliver to the Issuer and DTC a written list of principal, premium (if any) and interest to be paid on each Global Security maturing (on a Maturity or Redemption Date or otherwise) in the following month. The Trustee, the Issuer

and DTC will confirm the amounts of such principal, premium (if any) and interest payments with respect to each such Global Security on or about the fifth Business Day preceding the Maturity of such Global Security. On or before the Maturity Date, the Issuer will pay to the Trustee, as paying agent, the principal amount of such Global Security, together with any

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premium and interest due at such Maturity. The Trustee will pay such amount to DTC at the times and in the manner set forth below under "Manner of Payment". If any Maturity of a Global Security representing Book Entry Notes is not a Business Day, the payment due on such day shall be made on the next succeeding Business Day and no interest shall accrue on such payment for the period from and after such Maturity. Promptly after payment to DTC of the principal, premium (if any) and interest due at Maturity, earlier redemption or Tender of such Global Security (the "Cancelled Security"), the Trustee will cancel such Global Security (the "Cancelled Security") in accordance with the Indenture of Mortgage and so advise the Issuer; provided, however, if such Global Security is not being redeemed or tendered in its entirety, the Trustee shall authenticate a new Global Security in an amount equal to the principal portion of the Cancelled Security not paid. On the first Business Day of each month, the Trustee will deliver to the Issuer a written statement indicating the total principal amount of Outstanding Global Securities as of the immediately preceding Business Day.

Manner of Payment. The total amount of any principal, premium (if any) and interest due on Global Securities on any Interest Payment Date or at Maturity shall be paid by the Issuer to the Trustee in immediately available funds no later than 9:30 a.m. (New York City time) on such date. The Issuer will make such payment on such Global Securities by wire transfer of funds available for immediate use to the Trustee. The Issuer will confirm any such instructions in writing to the Trustee. Prior to 10:00 a.m. (New York City time) on the date of Maturity or as soon as possible thereafter, the Trustee will pay, from funds received from the Issuer, by separate wire transfer (using Fed wire message entry instructions in a form previously specified by DTC) to an account at the Federal Reserve Bank of New York previously specified by DTC, in funds available for immediate use by DTC, each payment of principal (together with any premium and interest thereon) due on a Global Security on such date. On each Interest Payment Date (other than at Maturity), interest payments shall be made to DTC, in funds available for

immediate use by DTC, in accordance with existing arrangements between the Trustee and DTC. On each such date, DTC will pay, in accordance with its SDFS operating procedures then in effect, such amounts in funds available for immediate use to the respective Participants in whose names the Book-Entry Notes represented by such Global Securities are recorded in the book-entry system maintained by DTC. Neither the Issuer (as issuer or as paying agent) nor the Trustee shall have any direct responsibility or liability for the payment by DTC to such Participants of the principal of and interest on the Book-Entry Notes.

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Withholding Taxes. The amount of any taxes required under applicable law to be withheld from any interest payment on a Book-Entry Note will be determined and withheld by the Participant, indirect participant in DTC or other Person responsible for forwarding payments and materials directly to the beneficial owner of such Note.

Procedure for Rate Setting and Posting:

The Issuer and the Agent will discuss from time to time the aggregate principal amount of, the issuance price of, and the interest rates to be borne by, Book-Entry Notes that may be sold as a result of the solicitation of orders by the Agent. If the Issuer decides to set prices of, and rates borne by, any Book-Entry Notes in respect of which the Agent is to solicit orders (the setting of such prices and rates to be referred to herein as "posting") or if the Issuer decides to change prices or rates previously posted by it, it will promptly advise the Agent of the prices and rates to be posted.

Acceptance and Rejection of Orders:

Unless otherwise instructed by the Issuer, each Agent will advise the Issuer promptly by telephone of all orders to purchase Book-Entry Notes received by such Agent, other than those rejected by it in whole or in part in the reasonable exercise of its discretion. The Issuer has the right to accept orders to purchase Book-Entry Notes and may reject any such orders in whole or in part.

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Preparation of Pricing Supplement:

If any order to purchase a Book-Entry Note is accepted by or on behalf of the Issuer, the Issuer, with the approval of the Presenting Agent (defined below) will prepare a supplement (a "Pricing Supplement") reflecting the terms of such Book-Entry Note and will supply at least ten copies thereof (and additional copies if requested) to the Agents which presented the order (the "Presenting Agent") at the address set forth on Schedule I to the Placement Agency Agreement, and one copy thereof to the

Trustee, to be delivered by overnight courier or telecopy to arrive no later than 11:00 a.m., New York City time, on the Business Day following the date of acceptance.

The Presenting Agent will cause an Offering Memorandum and Pricing Supplement to be delivered to the purchaser of such Book-Entry Note.

Outdated Pricing Supplements (other than those retained for files), will be destroyed.

Suspension of Solicitation

The Issuer may instruct each Agent to suspend at any time, for any period of time or permanently, the solicitation of orders to purchase Book-Entry Notes. Upon receipt of such instructions, each Agent will forthwith suspend solicitation until such time as the Issuer has advised them that such solicitation may be resumed.

In the event that at the time the Issuer suspends solicitation of purchases there shall be any orders outstanding for settlement, the Issuer will promptly advise each Agent and the Trustee whether such orders may be settled and whether copies of the Offering Memorandum as in effect at the time of the suspension, together with the appropriate Pricing Supplement, may be delivered in connection with the settlement of such orders. The Issuer will have the sole responsibility for such decision and for any arrangements that may be made in the event that the Issuer determines that such orders may not be settled or that copies of such Offering Memorandum or Pricing Supplement may not be so delivered.

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Procedure For Rate Changes:

When the Issuer has determined to change the interest rates of Book Entry Notes being offered, it will promptly advise each Agent and each Agent will forthwith suspend solicitation of orders. Each Agent will telephone the Issuer with recommendations as to the changed interest rates. At such time as the Issuer has advised the Agent of the new interest rates, the Agent may resume solicitation of orders. Until such time only "indications of interest" may be recorded.

Delivery of Offering Memorandum:

A copy of the Offering Memorandum and Pricing Supplement relating to a Book-Entry Note must accompany or precede the earliest of any written offer of such Book-Entry Note, confirmation of the purchase of such Book-Entry Note and payment for such Book-Entry Note by its purchaser. If notice of a change in the terms of the Book-Entry Notes is received by the Agent between the time an order for a Book-Entry Note is placed and the time written confirmation thereof is sent by the Presenting Agent to a customer or

his agent, such confirmation shall be accompanied by an Offering Memorandum and Pricing Supplement setting forth the terms in effect when the order was placed. Subject to "Suspension of Solicitation" above, the Presenting Agent will deliver an Offering Memorandum and Pricing Supplement as herein described with respect to each Book Entry Note sold by it. The Issuer will make such delivery if such Book-Entry Note is sold directly by the Issuer to a purchaser (other than an Agent).

Confirmation:

For each order to purchase a Book Entry Note solicited by any Agent and accepted by or on behalf of the Issuer, the Presenting Agent will issue a confirmation to the purchaser, with a copy to the Issuer, setting forth the details set forth above and delivery and payment instructions.

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Settlement:

The receipt by the Issuer of immediately available funds in payment for a Book-Entry Note and the authentication and issuance of the Global Security representing such Book-Entry Note shall constitute "settlement" with respect to such Book-Entry Note. All orders accepted by the Issuer will be settled on the tenth Business Day following the date of sale of such Book-Entry Note pursuant to the timetable for settlement set forth below unless the Issuer and the purchaser agree to settlement on another day which shall be no earlier than one Business Day following the date of sale.

Settlement Procedures:

Procedures with regard to each Book-Entry Note sold by the Issuer through any Agent, as agent, shall be as follows:

- A. The Presenting Agent will advise the Issuer by telephone of the following settlement information:
 - 1. Principal amount.
 - 2. Maturity Date.
 - 3. The interest rate.
 - 4. Interest Payment Dates and the Interest Payment Period.
 - 5. Redemption or repayment provisions, if any.
 - 6. Optional Tender Provisions, if any
 - 7. Settlement date.
 - 8. Price.
 - 9. The Presenting Agent's DTC participant account number and commission, determined as provided in Section 2

of the Placement Agency Agreement.

10. Whether such Book-Entry Note is issued at an original issue discount ("OID") and, if so, the total amount of OID, the yield to maturity and the initial accrual period OID.

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- B. The Issuer will assign a CUSIP number to the Global Security representing such Book-Entry Note and then advise the Trustee and the Presenting Agent by telephone (confirmed in writing at any time on the same date) or electronic transmission of the information set forth in Settlement Procedure "A" above, such CUSIP number and the name of the Presenting Agent.
- C. The Trustee will enter a pending deposit message through DTC's Participant Terminal System providing the settlement information to DTC specified in the Letter of Representations from the Issuer and the Trustee to DTC dated as of the date hereof.
- D. To the extent the Issuer has not already done so, the Issuer will deliver to the Trustee a Global Security in a form that has been approved by the Issuer, the Agent and the Trustee.
- E. The Trustee will complete such Global Security, stamp the appropriate legend, as instructed by DTC, if not already set forth thereon, and authenticate the Global Security representing such Book-Entry Note in accordance with the terms of the written order of the Issuer then in effect.
- F. DTC will credit such Book-Entry Note to the Trustee's participant account at DTC.

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- G. Upon delivery of the pending deposit message referenced in "C" above, an SDFS deliver order through DTC's Participant Terminal System will be created instructing DTC to debit such Book-Entry Note to the Trustee's participant account and credit such Book-Entry Note to the Presenting Agent's participant account and debit the Presenting Agent's settlement account and credit the Trustee's settlement account for an amount

equal to the price of such Book-Entry Note less the Presenting Agent's commission. The entry of such a pending deposit message by the Trustee shall constitute a representation and warranty by the Trustee to DTC that (i) the Global Security representing such Book-Entry Note has been issued and authenticated and (ii) the Trustee is holding such Global Security pursuant to the Medium Term Note Certificate Agreement between The Chase Manhattan Bank and DTC.

- H. The Presenting Agent will enter :an SDFS deliver order through DTC's Participant Terminal System instructing DTC (i) to debit such Book-Entry Note to the Presenting Agent's participant account and credit such Book-Entry Note to the participant accounts of the Participants with respect to such Book-Entry Note and (ii) to debit the settlement accounts of such Participants and credit the settlement account of the Presenting Agent for an amount equal to the price of such Book-Entry Note.
- I. Transfers of funds in accordance with SDFS deliver orders described in Settlement Procedures "G" and "H" will be settled in accordance with SDFS operating procedures in effect on the settlement date.
- J. The Trustee will, upon receipt of funds from the Agent in accordance with Settlement Procedure "G", credit to an account of the Issuer maintained at Mellon Bank, N.A., funds available for immediate use in the amount transferred to the Trustee in accordance with Settlement Procedure "G". However, the Trustee shall not credit the account of the Issuer unless and until the Trustee has confirmed receipt of the funds in the appropriate amount transferred in accordance with Settlement Procedure "G".

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- K. The Presenting Agent will confirm the purchase of such Book-Entry Note to the purchaser either by transmitting to the Participants with respect to such Book-Entry Note a confirmation order or orders through DTC's institutional delivery system or by mailing a written confirmation to such purchaser.

Settlement Procedures Timetable:

For orders of Book-Entry Notes solicited by any Agent and accepted by the Issuer for settlement on the Business Day after the sale date, Settlement Procedures "A"

through "K" set forth above shall be completed as soon as possible but not later than the respective times (New York City time) set forth below:

Settlement Procedure -----	Time ----
A	11:00 a.m. on the sale date
B	12:00 Noon on the sale date
C	12:00 Noon on the Business Day before settlement date
D	3:00 p.m. on the day before settlement
E	9:00 a.m. on settlement date
F	10:00 a.m. on settlement date
G-H	2:00 p.m. on settlement date
I	4:30 p.m. on settlement date
J-K	5:00 p.m. on settlement date

If a sale is to be settled more than one Business Day after the sale date, Settlement Procedures "A", "B" and "C" shall be completed as soon as practicable but no later than 11:00 a.m. and 12:00 Noon on the first Business Day after the sale date and no later than 2:00 p.m. on the Business Day before the settlement date, respectively. Settlement Procedure "I" is subject to extension in accordance with any extension of Fed wire closing deadlines and in the other events specified in SDFS operating procedures in effect on the settlement date.

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If settlement of a Book-Entry Note is rescheduled or canceled, the Trustee, to the extent it has received written notice of such rescheduling or cancellation, will deliver to DTC, through DTC's Participant Terminal System, a cancellation, message to such effect by no later than 2:00 p.m. on the Business Day immediately preceding the scheduled settlement date.

Failure to Settle:

If the Trustee has not entered an SDFS deliver order with respect to a Book-Entry Note pursuant to Settlement Procedure "G", then, upon written request (which may be by telecopy) of the Issuer, the Trustee shall deliver to DTC, through DTC's Participant Terminal System, as soon as practicable, a withdrawal message instructing DTC to debit such Book Entry Note to the Trustee's participant account. DTC will process the withdrawal message, provided that the Trustee's participant account contains a principal amount of the Global Security representing such Book-Entry Note that is

at least equal to the principal amount to be debited. If a withdrawal message is processed with respect to all the Book-Entry Notes represented by a Global Security, the Trustee will cancel such Global Security in accordance with the Indenture of Mortgage and so advise the Issuer, and will make appropriate entries in its records. The CUSIP number assigned to such Global Security shall, in accordance with CUSIP Service Bureau procedures, be canceled and not immediately reassigned. If a withdrawal message is processed with respect to one or more, but not all, of the Book-Entry Notes represented by a Global Security, the Trustee will exchange such Book-Entry Note for two Global Securities, one of which shall represent such Book Entry Notes and shall be canceled immediately after issuance and the other of which shall represent the other Book-Entry Notes previously represented by the surrendered Global Security and shall bear the CUSIP number of the surrendered Global Security.

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If the purchase price for any Book Entry Note is not timely paid to the Participants with respect to such Note by the beneficial purchaser thereof (or a Person, including an indirect participant in DTC, acting on behalf of such purchaser), such Participants and, in turn, the Presenting Agent may enter SDFS deliver orders through DTC's Participant Terminal System debiting such Note to such Presenting Agent's participant account and crediting such Note free to the participant account of the Trustee and shall notify the Trustee and the Issuer thereof. Thereafter, the Trustee (i) will promptly notify the Issuer thereof, once the Trustee has confirmed that such Note has been credited to its participant account, and the Issuer shall immediately transfer by Fed wire (in immediately available funds) to such Agent an amount equal to the price of such Note which was previously credited to the account of the Issuer maintained at Mellon Bank, N.A., or wire transferred at the Issuer's direction in accordance with Settlement Procedure J and (ii) the Trustee will deliver the withdrawal message and take the related actions described in the preceding paragraph. If such failure shall have occurred for any reason other than a default by the Presenting Agent in the performance of its obligations hereunder and under the Placement Agency Agreement, then the Issuer will reimburse the Presenting Agent or the Trustee, as applicable, on an equitable basis for the loss of the use of the funds during the period when they were credited to the account of the Issuer.

Notwithstanding the foregoing, upon any failure to settle with respect to a

Book-Entry Note, DTC may take any actions in accordance with its SDFS operating procedures then in effect. In the event of a failure to settle with respect to one or more, but not all, of the Book-Entry Notes to have been represented by a Global Security, the Trustee will provide, in accordance with Settlement Procedure "E", for the authentication and issuance of a Global Security representing the other Book-Entry Notes to have been represented by such Global Security and will make appropriate entries in its records.

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Trustee Not to Risk Funds:

Nothing herein shall be deemed to require the Trustee to risk or expend its own funds in connection with any payment to the Issuer, DTC, the Agent or the purchaser, it being understood by all parties that payments made by the Trustee to the Issuer, DTC, the Agent or the purchaser shall be made only to the extent that funds are provided to the Trustee for such purpose.

Authenticity of Signatures:

The Issuer will cause the Trustee to furnish the Agent from time to time with the specimen signatures of each of the Trustee's officers, employees or agents who have been authorized by the Trustee to authenticate Book-Entry Notes, but no Agent will have any obligation or liability to the Issuer or the Trustee in respect of the authenticity of the signature of any officer, employee or agent of the Issuer or the Trustee on any Book-Entry Note.

Payment of Expenses:

Each Agent shall forward to the Issuer, on a monthly basis, a statement of the out-of-pocket expenses incurred by such Agent during that month that are reimbursable to it pursuant to the terms of the Placement Agency Agreement. The Issuer will remit payment to each Agent currently on a monthly basis.

Advertising Costs:

The Issuer will determine with the Agent the amount of advertising that may be appropriate in soliciting offers to purchase the Book-Entry Notes. Advertising expenses will be paid by the Issuer.

Periodic Statements from the Trustee:

Periodically, upon written request, the Trustee will send to the Issuer a statement setting forth the principal amount of Book-Entry Notes outstanding as of that date and setting forth a brief description of any sales of Book-Entry Notes of which the Issuer has advised the Trustee but which have not yet been settled.

Restrictions on Transfers:

No Note may be resold or transferred in any manner that does not comply with the applicable restrictions on resale or transfer or the procedures required for resale or transfer set forth in the

Business Day: As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which the Trustee or banks in New York, New York are generally authorized or obligated by law or executive order to close.

PART II

Administrative Procedures for Certificated Notes

The Trustee will serve as registrar and transfer agent, authenticating agent and paying agent in connection with the Certificated Notes, unless a different paying agent is duly appointed by the Issuer to carry out certain duties.

Issuance: Each Certificated Note will be dated and issued as of the date of its authentication by the Trustee. Each Certificated Note will bear an Original Issue Date, which will be (i) with respect to an original Certificated Note (or any portion thereof), its original issuance date (which will be the settlement date) and (ii) with respect to any Certificated Note (or portion thereof) issued subsequently upon transfer or exchange of a Certificated Note or in lieu of a destroyed, lost or stolen Certificated Note, the Original Issue Date of the predecessor Certificated Note, regardless of the date of authentication of such subsequently issued Certificated Note.

Registration: Certificated Notes will be issued only in fully registered form without coupons.

Transfers and Exchanges: A Certificated Note may be presented for transfer or exchange at the office designated by the Trustee located in Dallas, Texas or at such other office as the Issuer may designate. Certificated Notes will be exchangeable for other Certificated Notes having identical terms but different authorized denominations without service charge. Certificated Notes will not be exchangeable for Book-Entry Notes.

Maturities: Each Certificated Note will mature on a date not less than one year nor more than thirty-five years after the Original Issue Date (the settlement date) for such Note.

Denominations: The denomination of any Certificated Note denominated in U.S. dollars will be a minimum of \$100,000 or any amount in excess thereof that is an integral multiple of \$1,000.

Interest:

General. Interest, if any, on each Certificated Note will accrue from the Original Issue Date for the first interest period or the last date to which interest has been paid, if any, for each subsequent interest period, and will be calculated and paid in the manner described in such Note and in the Offering Memorandum, as supplemented by the applicable Pricing Supplement. Unless otherwise specified therein, each payment of interest on a Certificated Note will include interest accrued up to but excluding the Interest Payment Date or up to but excluding the Maturity Date.

Record Dates. The Record Date with respect to any Interest Payment Date shall be the December 15 or June 15 immediately preceding such Interest Payment Date, whether or not such date shall be a Business Day.

Interest Payment. Unless otherwise specified pursuant to Settlement Procedure "A" below, interest payments will be made semiannually on on January 1 and July 1 of each year and at Maturity, or earlier redemption or Tender; provided, however, that in the case of a Certificated Note issued between a Record Date and an Interest Payment Date, or on an Interest Payment Date, the first interest payment will be made on the Interest Payment Date following the next succeeding Record Date. If any Interest Payment Date for, or the Maturity of, a Certificated Note is not a Business Day, the payment due on such day shall be made on the next succeeding Business Day and no interest shall accrue on such payment for the period from and after such Interest Payment Date or Maturity, as the case may be.

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Calculation
of Interest:

Interest on Certificated Notes (including interest for partial periods) will be calculated on the basis of a 360 day year of twelve 30-day months.

Payments of
Principal and Interest:

No later than 11:00 a.m. on the due date for any payment of principal, premium (if any) or interest on each Certificated Note, the Issuer will pay to the Trustee, as paying agent, the amount of principal, premium (if any) and/or interest then due. The Trustee will pay the principal amount of each Certificated Note at Maturity or earlier redemption or Tender upon presentation of such Certificated Note to the Trustee. Such payment, together with payment of any premium and interest due at Maturity or earlier redemption or Tender of such Certificated Note, will be paid to an account at a bank in New York, New York (or other bank consented to by the Issuer) as the registered holder of the Notes shall designate to the Trustee not less than

ten (10) days prior to the Record Date for such payment, in funds available for immediate use by the Trustee and in turn by the Holder of such Certificated Note. Certificated Notes presented and surrendered to the Trustee at Maturity or earlier redemption or Tender for payment will be cancelled by the Trustee in accordance with the Indenture of Mortgage. All interest payments on a Certificated Note (other than interest due at Maturity or earlier redemption or Tender) and any other payments for which appropriate instructions for payment shall not have been received by the Trustee not less than ten (10) days prior to the Record Date for such payment will be made by check drawn on the Trustee or another Person appointed by the Trustee mailed by the Trustee to the Person entitled thereto as provided in such Note; provided, however, that the holder

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of \$10,000,000 or more of Certificated Notes with similar tenor and terms will be entitled to receive payment by wire transfer in U.S. dollars upon receipt of written instructions by the Trustee not less than ten (10) days prior to the Record Date for such payment. Within five Business Days after each Record Date, the Trustee will furnish the Issuer with a list of interest payments to be made on the following Interest Payment Date for each group of Certificated Notes bearing interest at a particular rate and in total for all Certificated Notes. Interest at Maturity or earlier redemption or Tender will be payable to the Person to whom the payment of principal is payable. The Trustee will provide, on or about the last Business Day of each month, to the Issuer lists of principal and interest, to the extent ascertainable, to be paid on Certificated Notes maturing (on a Maturity or Redemption Date or otherwise) in the next succeeding month.

The Issuer will be responsible for withholding taxes on interest paid on Certificated Notes as required by applicable law.

Procedure for Rate Setting and Posting:

The Issuer and the Agent will discuss from time to time the aggregate principle amount of, the issuance price of, and the interest rates to be borne by, Notes that may be sold as a result of the solicitation of orders by any Agent. If the Issuer decides to set prices of, and rates borne by, any Notes in respect of which any Agent are to solicit orders (the setting of such prices and rates to be referred to herein as "posting") or if the Issuer decides to change prices or rates previously posted by it, it will promptly advise each Agent of the prices and rates to be posted.

Acceptance and Rejection of Orders:

Unless otherwise instructed by the

Issuer, each Agent will advise the Issuer promptly by telephone of all orders to purchase Certificated Notes received by such Agent, other than those rejected by it in whole or in part in the reasonable exercise of its discretion and, if such Agent or any of its affiliates shall be the offeror, shall advise the Issuer of that fact. Unless otherwise agreed by the Issuer and each Agent, the Issuer has the sole right to accept orders to purchase Certificated Notes and may reject any such orders in whole or in part. The Issuer will forthwith advise such Presenting Agent of the acceptance or rejection of any offer received through such Agent who shall then so advise the offeror.

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Preparation of Pricing Supplement:

If any order to purchase a Certificated Note is accepted by or on behalf of the Issuer, and if so required by Section 4(a) (i) of the Placement Agency Agreement, the Issuer, with the approval of the Presenting Agent, will prepare a Pricing Supplement reflecting the terms of such Certificated Note and will supply at least ten copies thereof (and additional copies if requested) to the Presenting Agent at the address set forth on Schedule I to the Placement Agency Agreement, and one copy thereof to the Trustee, to be delivered by overnight courier or telecopy to arrive no later than 11:00 a.m., New York City time, on the Business Day following the sale date. The Presenting Agent will cause an Offering Memorandum and Pricing Supplement to be delivered to the purchaser of such Certificated Note. Outdated Pricing Supplements (other than those-retained for files), will be destroyed.

Suspension of Solicitation:

Subject to the Issuer's representations, warranties and covenants contained in the Placement Agency Agreement, the Issuer may instruct the Agent to suspend at any time for any period of time or permanently, the solicitation of orders to purchase Certificated Notes. Upon receipt of such instructions, each Agent will forthwith suspend solicitation until such time as the Issuer has advised each Agent that such solicitation may be resumed.

In the event that at the time the Issuer suspends solicitation of Purchases there shall be any orders outstanding for settlement, the Issuer will promptly advise each Agent and the Trustee whether such orders may be settled and whether copies of the Offering Memorandum as in effect at the time of the suspension, together with the appropriate Pricing Supplement, may be delivered in connection with the settlement of such orders. The Issuer will have the sole responsibility for such decision and for any arrangements that may be made in the

event that the Issuer determines that such orders may not be settled or that copies of such Offering Memorandum may not be so delivered. No such suspension shall excuse any failure by the Issuer to fulfill a contractual obligation to deliver any Certificated Notes.

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Procedure for Rate Changes:

When the Issuer has determined to change the interest rates of Certificated Notes being offered, it will promptly advise the Agent and each Agent will forthwith suspend solicitation of orders. Each Agent will telephone the Issuer with recommendations as to the changed interest rates. At such time as the Issuer has advised the Agent of the new interest rates, the Agent may resume solicitation of orders. Until such time only "indications of interest" may be recorded.

Delivery of Offering Memorandum:

A copy of the Offering Memorandum and any Pricing Supplement relating to a Certificated Note must accompany or precede the earliest of any written offer of such Certificated Note, confirmation of the purchase of such Certificated Note and payment for such Certificated Note by its purchaser. If notice of a change in the terms of the Certificated Notes is received by the Agent between the time an order for a Certificated Note is placed and the time written confirmation thereof is sent by the Presenting Agent to a customer or his agent, such confirmation shall be accompanied by an Offering Memorandum and Pricing Supplement setting forth the terms in effect when the order was placed. Subject to "Suspension of Solicitation" above, the Presenting Agent will deliver an Offering Memorandum and Pricing Supplement as herein described with respect to each Certificated Note sold by it. The Issuer will make such delivery if such Certificated Note is sold directly by the Issuer to a purchaser (other than any Agent).

Confirmation:

For each order to purchase a Certificated Note solicited by any Agent and accepted by or on behalf of the Issuer, the Presenting Agent will issue a confirmation to the purchaser, with a copy to the Issuer, setting forth the information specified in paragraph A under "Settlement Procedures" and delivery and payment instructions.

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Settlement:

The receipt by the Issuer of immediately available funds in exchange for an authenticated Certificated Note delivered to the Presenting Agent and the Presenting Agent's delivery of such Certificated Note against receipt of immediately available funds shall, with

respect to such Certificated Note, constitute "settlement". All orders accepted by the Issuer will be settled on the tenth Business Day following the date of sale pursuant to the timetable for settlement set forth below, unless the Issuer and the Purchaser agree to settlement on another day which shall be no earlier than one Business Day following the date of sale.

Settlement Procedures:

Settlement Procedures with regard to each Certificated Note sold by the Issuer through any Agent, as agent, shall be as follows:

- A. The Presenting Agent will advise the Issuer by telephone of the following settlement information:
 1. Name in which such Certificated Note is to be registered ("Registered Owner").
 2. Address of the Registered Owner and address for payment of principal and interest.
 3. Taxpayer identification number of the Registered Owner (if available).
 4. Rank (senior or subordinated).
 5. Principal amount.
 6. Maturity Date.

 7. Interest Payment Dates and the Interest Payment Period.
 8. Redemption or repayment provisions, if any.
 9. Optional Tender Provisions, if any.
 10. The settlement date.
 11. Price (including currency).
 12. Presenting Agent's commission, determined as provided in Section 2 of the Placement Agency Agreement.
 13. Whether such Certificated Note is issued at an original issue discount ("OID"), and, if so, the total amount of OID, the yield to maturity and the initial accrual period

OID.

- B. The Issuer will advise the Trustee by telephone (confirmed in writing at any time on the sale date) or electronic transmission of the information set forth in Settlement Procedure "A" above and the name of the Presenting Agent.
- C. The Issuer will deliver to the Trustee an original Certificated Note with customer confirmation in triplicate in forms that have been approved by Issuer, the Agent and the Trustee.
- D. The Trustee will complete such Certificated Note and will authenticate such Certificated Note and deliver it (with the confirmation) and two copies thereof (clearly marked as such) to the Presenting Agent, and the Presenting Agent will acknowledge receipt of the Note by stamping or otherwise marking the first copy and returning it to the Trustee. Such delivery will be made only against such acknowledgment of receipt. In the event that the instructions given by the Presenting Agent for payment to the account of the Issuer are revoked, the Issuer will as promptly as possible wire transfer to the account of the Presenting Agent an amount of immediately available funds equal to the amount of such payment made.

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- E. The Presenting Agent will deliver such Certificated Note (with the confirmation) to the customer against payment in immediately payable funds. The Presenting Agent will obtain the acknowledgement of receipt of such Certificated Note by retaining the second copy thereof.
- F. Upon verification by the Presenting Agent that a Note has been prepared and properly authenticated by the Trustee and registered in the name of the purchaser in the proper principal amount, payment will be made to the Issuer by the Presenting Agent the same day in immediately available funds. Such payment shall be made only upon prior receipt by the Presenting Agent of immediately available funds from or on behalf of the purchaser unless the Presenting Agent decides, at its option, exercised in its sole discretion, to advance its own funds for such payment against subsequent receipt of funds from the purchaser. The Presenting Agent shall immediately

notify the Issuer of its decision to advance its own funds for payment against subsequent receipt of funds from a purchaser.

- G. The Trustee will send a third copy of the Certificated Note (clearly marked as such) to the Issuer by first-class mail.

Settlement Procedures Timetable:

For orders of Certificated Notes solicited by any Agent, as agent, and accepted by the Issuer, Settlement Procedures "A" through "G" set forth above shall be completed on or before the respective times (New York City time) set forth below:

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Settlement Procedure -----	Time ----
A	2:00 p.m. on the day before settlement
B-C	3:00 p.m. on the day before settlement
D	2:15 p.m. on settlement date
E	3:00 p.m. on settlement date
F-G	5:00 p.m. on settlement date

Failure to Settle:

If a purchaser fails to accept delivery of and make payment for any Certificated Note, the Presenting Agent will notify the Issuer and the Trustee by telephone and return such Certificated Note to the Trustee. Upon receipt of such notice, the Issuer will immediately wire transfer to the account of the Presenting Agent an amount equal to the amount previously credited to the account of Issuer in respect of such Certificated Note. Such wire transfer will be made on the settlement date, if possible, and in any event not later than the Business Day following the settlement date. If the failure shall have occurred for any reason other than a default by the Presenting Agent in the performance of its obligations hereunder and under the Placement Agency Agreement, then the Issuer will reimburse the Presenting Agent on an equitable basis for its loss of the use of the funds during the period when they were credited to the account of the Issuer. Immediately upon receipt of the Certificated Note in respect of which such failure occurred, the Trustee will cancel such Certificated Note in accordance with the Indenture of Mortgage, as supplemented, and so advise the Issuer and will make appropriate entries in its records.

Trustee Not to Risk Funds:

Nothing herein shall be deemed to require the Trustee to risk or expend its own

funds in connection with any payment to the Issuer, the Agent or the purchaser, it being understood by all parties that payments made by the Trustee to the Issuer, the Agent or the purchaser shall be made only to the extent that funds are provided to the Trustee for such purpose.

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Authenticity of Signatures:

The Issuer will cause the Trustee to furnish the Agent from time to time with the specimen signatures of each of the Trustee's officers, employees or agents who has been authorized by the Trustee to authenticate Certificated Notes, but no Agent will have any obligation or liability to the Issuer or the Trustee in respect of the authenticity of the signature of any officer, employee or agent of the Issuer or the Trustee on any Certificated Note.

Payment of Expenses:

Each Agent shall forward to the Issuer, on a monthly basis, a statement of the out-of-pocket expenses incurred by such Agent during that month that are reimbursable to it pursuant to the terms of the Placement Agency Agreement. The Issuer will remit payment to each Agent currently on a monthly basis.

Advertising Costs:

The Issuer will determine with the Agent the amount of advertising that may be appropriate in soliciting orders to purchase the Certificated Notes. Advertising expenses will be paid by the Issuer.

Periodic Statements from the Trustee:

Periodically, upon written request, the Trustee will send to the Issuer a statement setting forth the principal amount of Certificated Notes outstanding as of that date and setting forth a brief description of any sales of Certificated Notes of which the Issuer has advised the Trustee but which have not yet been settled.

Restrictions of Transfer:

No Note may be resold or transferred in any manner that does not comply with the applicable restrictions on resale or transfer or the procedures required for resale or transfer set forth on the Note certificate.

Business Day:

As used herein, "Business Day" means any day other than a Saturday or Sunday or a day on which the Trustee or banks in New York, New York are generally authorized or obligated by law or executive order to close.

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TERMS AGREEMENT

[Date]

To: PHILADELPHIA SUBURBAN WATER COMPANY

Subject in all respects to the terms and conditions of the Placement Agency Agreement (the "Agreement") dated December 3, 1999 between the Placement Agents and you, the undersigned agrees to purchase the following Notes of Philadelphia Suburban Water Company:

- Principal Amount:
- Interest Rate:
- Maturity Date:
- Discount to the Purchaser: ___% of Principal Amount
- Purchase Price:
- Commission:
- Agent DTC No.:
- CUSIP No.:
- Closing Date and Time:
- Initial Redemption Date:
- Initial Redemption Percentage:
- Annual Redemption Reduction Percentage:
- Optional Tender Date
- Requirements to deliver the documents specified in Section 6(a)(ii) of the Agreement:
 - Certificate contemplated by clause (1): [Required/Not Required]
 - Opinion contemplated by clause (2): [Required/Not Required]
 - Opinion contemplated by clause (3): [Required/Not Required]
 - Certificate contemplated by clause (4): [Required/Not Required]
 - Opinion contemplated by clause (5): [Required/Not Required]
 - Letter contemplated by clause (6): [Required/Not Required]
- Period during which additional Notes may not be sold if not period between trade date and Closing Date as specified in Section 4(a)(v) of the Agreement:

Other Provisions:

By _____

Name:
Title:

Accepted:

PHILADELPHIA SUBURBAN WATER COMPANY

by _____
Name:
Title:

EXHIBIT C

(215) 575-7000

_____, 20__

To each of the Addressees on Schedule 1 of the Placement Agency Agreement Acting Severally and Not Jointly in the Capacities of Agent or Purchaser or in Either such Capacity

Re: Philadelphia Suburban Water Company
 \$300,000,000 First Mortgage Bonds,
 1999 Medium Term Note Series, Subseries _

Ladies and Gentlemen:

We have acted as special counsel to Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), in connection with the transactions contemplated by (i) the Placement Agency Agreement dated December 3, 1999 (the "Placement Agency Agreement") between the Company and the Agents identified therein (the "Agents"); (ii) the Paying Agency Agreement dated December 3, 1999 (the "Paying Agency Agreement"), among the Company, Chase Manhattan Trust Company, National Association, as paying agent and the Agents; (iii) the Indenture of Mortgage dated as of January 1, 1941 (the "Original Indenture"), between the Company, and Chase Manhattan Trust Company, National Association (as successor in interest to The Philadelphia Company for Insurance on Lives and Exactng Annuities), as trustee (the "Trustee"), as amended and supplemented by thirty-three supplements thereto (the Original Indenture, as so amended and supplemented, the "Indenture"); (iv) the Thirty-Third Supplemental Indenture dated as of November 15, 1999 (the "Thirty-Third Supplemental Indenture") between the Company and the Trustee; (v) the First Mortgage Bonds, 1999 Medium Term Note Series to be issued in one or more subseries pursuant to the Thirty-Third Supplemental Indenture (the "Notes"); (vi) the Confidential Offering Memorandum, dated December 3, 1999 relating to the offering of the Notes, including the exhibits thereto (the "Offering Memorandum") and including any quarterly or annual reports, if any, incorporated therein by reference (such quarterly and annual reports referred to as "Incorporated Documents") and (vii) the issuance of \$____,000,000 aggregate principal amount of the Company's First Mortgage Bonds, 1999 Medium Term Note Series, Subseries __ (the "Global Bond"). This opinion is being rendered to you pursuant to Section 4(a)(iv)(A) of the Placement Agency Agreement. Unless otherwise specified, capitalized terms not otherwise defined herein shall have the meanings specified in the Placement Agency Agreement, the Original Indenture or the Thirty-Third Supplemental Indenture.

In connection with this opinion, we have examined the following documents:

- (a) the Placement Agency Agreement;
- (b) the Paying Agency Agreement;
- (c) the Indenture (including the Thirty-Third Supplemental Indenture);

(d) the Global Bond;

(e) the Offering Memorandum;

(f) a copy of the Articles of Incorporation of the Company, as amended and restated and now in effect;

(g) a copy of the Bylaws of the Company as now in effect;

(h) the Securities Certificate relating to the issuance and sale of the Notes, filed by the Company with the Pennsylvania Public Utility Commission (the "PUC") pursuant to the provisions of Chapter 19 of the Pennsylvania Public Utility Code and a copy of the Order of the PUC dated November 18, 1999 registering said Securities Certificate, and certified by the Secretary of the PUC;

(i) evidence satisfactory to us of the due recordation of the Original Indenture and the Thirty-Third Supplemental Indenture in the Counties of Berks, Bucks, Chester, Delaware and Montgomery in the Commonwealth of Pennsylvania;

(j) the resolutions of the Executive Committee of the Board of Directors of the Company dated October 15, 1999 authorizing the issuance of up to \$300,000,000 aggregate principal amount of Notes and the execution of the Thirty-Third Supplemental Indenture, the Placement Agency Agreement and the Paying Agency Agreement;

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(k) the certificates of the Company and other documents delivered at the Closing and in connection with the issuance of the Global Bond; and

(l) public records and other publicly available documents.

In rendering the opinions set forth below, we have assumed the genuineness of all signatures on documents and instruments examined by us (except signatures of the Company on the Placement Agency Agreement, the Thirty-Third Supplemental Indenture, the Paying Agency Agreement and the Global Bond) and that all documents submitted to us as copies conform with the originals thereof. We have also relied, to the extent we have deemed such reliance to be necessary and proper, on the factual matters contained in certificates of public officials and officers of the Company.

To the extent any opinion below is made to our knowledge, such knowledge shall mean the actual knowledge of attorneys within our firm who have provided substantive representation to the Company, based solely upon such limited investigation and inquiry as is set forth herein, and does not include matters of which such attorneys could be deemed to have constructive knowledge.

Based upon the foregoing and such other examination of fact and law as we have deemed necessary for purposes of this opinion, and subject to the assumptions and qualifications set forth herein, we are of the opinion that:

1. The Company is duly incorporated and subsisting under the laws of the Commonwealth of Pennsylvania. The Company has full corporate power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and to conduct its business as described in the Offering Memorandum.

2. The Company, on December 3, 1999, had full corporate power and authority to enter into the Placement Agency Agreement and the Paying Agency Agreement, to issue an aggregate principal amount of \$300,000,000 of the Notes, and to perform its obligations under the Placement Agency Agreement, the Paying Agency Agreement and the Notes. The Placement Agency Agreement was duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties thereto, did, on the date of execution and delivery thereof, and does, on the date hereof, constitute a legal, valid and binding agreement of the Company. The Paying Agency Agreement was duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties thereto, did, on the date of execution and delivery thereof, and does, on the date hereof, constitute a legal, valid and binding agreement of the Company and is enforceable against the Company in accordance with its terms (subject to applicable bankruptcy,

insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

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3. An aggregate principal amount of \$300,000,000 of the Notes was duly authorized for issuance and sale pursuant to the Indenture (including the Thirty-Third Supplemental Indenture) and the Placement Agency Agreement, and the Global Bond when executed by the Company and authenticated by the Trustee and delivered pursuant to the provisions of the Indenture (including the Thirty-Third Supplemental Indenture) and the Placement Agency Agreement against payment of the consideration therefor specified in the Placement Agency Agreement, will constitute the legal, valid and binding obligations of the Company, entitled to the benefits and security of the Indenture (including, without limitation, the Thirty-Third Supplemental Indenture) in accordance with its terms, secured thereby equally and ratably with all First Mortgage Bonds of the Company outstanding under the Indenture, and enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

4. The Company had full corporate power and authority to enter into the Thirty-Third Supplemental Indenture on the date of execution and delivery thereof. The Thirty-Third Supplemental Indenture was duly authorized, executed and delivered by the Company and, assuming the due authorization, execution and delivery by the other parties thereto, the Indenture, as supplemented by the Thirty-Third Supplemental Indenture, did, on the date of execution and delivery thereof and does, on the date hereof constitute a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law). The Original Indenture and the Thirty-Third Supplemental Indenture were properly recorded in the Counties of Berks, Bucks, Chester, Delaware and Montgomery in the Commonwealth of Pennsylvania and such recordings are the only recordings and filings necessary in order to establish, preserve, protect and perfect the lien of the Indenture on all real estate and fixed property of the Company (excluding easements and other similar rights) described in the Indenture as subject to the lien thereof. The Indenture creates the valid, binding and direct lien which it purports to create upon the interest of the Company in the real estate and fixed property of the Company specifically described therein as subject to the lien thereof.

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5. The execution, delivery and performance of the Thirty-Third Supplemental Indenture, the Placement Agency Agreement, the Paying Agency Agreement and the Notes and the consummation of the transactions contemplated thereby did not, on the date of execution and delivery thereof, does not, on the date hereof, and will not (with or without the giving of notice or lapse of time) conflict with or result in a breach of or default under the Articles of Incorporation or Bylaws of the Company or the Indenture.

6. The Indenture (including, without limitation, the Thirty-Third Supplemental Indenture) and the Global Bond conform in all material respects as to legal matters to the descriptions thereof in the Offering Memorandum. The descriptions in the Offering Memorandum (but not including Incorporated Documents) of statutes, regulations or legal or governmental proceedings accurately summarize the information purported to be summarized therein.

7. The authorization, execution and delivery of the Thirty-Third Supplemental Indenture and the issuance and sale of the Global Bond is not, under the circumstances described in the Placement Agency Agreement, subject to the provisions of the Public Utility Holding Company Act of 1935 in any respect,

and, as to the Thirty-Third Supplemental Indenture did not and, as to the Global Bonds, does not require that (a) a declaration with respect thereto shall have become effective under Section 7 of the Public Utility Holding Company Act of 1935 or (b) other authorization or approval of the Securities and Exchange Commission shall have become effective under the provisions of said Act.

8. To the best of our knowledge, there are no actions, suits or proceedings, pending or threatened, relating to the Notes, their offering, or the Offering Memorandum.

9. The PUC has entered an Order dated November 18, 1999 (the "PUC Order"), registering the Securities Certificate filed by the Company with respect to the issuance and sale of the Notes, which order, on the date hereof, is in effect and is final and nonappealable. Except for the PUC Order and the recording of the Thirty-Third Supplemental Indenture as described in paragraph 4 hereof, no other consent, approval, authorization or order of, or any filing with, any government, governmental or other administrative agency or body is required as of the date hereof in connection with the execution and delivery by the Company of the Placement Agency Agreement, the Paying Agency Agreement and the Thirty-Third Supplemental Indenture, the solicitation of offers for the Global Bond, the issuance of the Global Bond or the performance by the Company of any of its obligations thereunder, except such as may be required under the blue sky laws of any jurisdiction in connection with the issuance and sale of the Global Bond.

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10. The Global Bond may be offered, issued, sold and delivered to the Agents and the first subsequent purchaser(s), in the manner contemplated by the Placement Agency Agreement, the Thirty-Third Supplemental Indenture and the Offering Memorandum without registration thereof under the Securities Act of 1933, as amended, and without qualification of an indenture in respect of the Notes under the Trust Indenture Act of 1939, as amended, it being understood that no opinion is expressed as to any subsequent resale of any Notes by any Person or any other person. In rendering this opinion, we have assumed that the first subsequent purchaser(s) is a Qualified Institutional Buyer or an offeree that you reasonably believe is a Qualified Institutional Buyer, and we have further assumed the accuracy of (i) your representations in the Placement Agreement and (ii) those of the Company in the Placement Agreement regarding the absence of any general solicitation in connection with the sale of the Notes.

11. Upon the issuance of the Global Bond and the payment of the consideration therefor, the Trustee will have a valid and perfected security interest, for the benefit of the Trustee and the holders of the Global Bond, to secure the full and punctual performance of the Global Bond and all obligations of the Company under the Indenture (including the Thirty-Third Supplemental Indenture), in all real estate and fixed property (excluding easements and other similar rights) specifically described in the Indenture (other than properties released from the Indenture in accordance with the terms thereof).

12. We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Offering Memorandum and take no responsibility therefor, except to the extent referred to in paragraph 6 hereof and in this paragraph. In the course of the preparation by the Company of the Offering Memorandum, we participated in conferences with certain officers and employees of the Company, examined the Offering Memorandum and made certain inquiries in connection with the preparation of the Offering Memorandum. We took no part in the preparation of any of the Incorporated Documents and we did not conduct any independent investigation or make any inquiries with regard to the Incorporated Documents and the information contained therein. Subject to the foregoing, we have no reason to believe that the Offering Memorandum contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that we express no opinion with respect to the financial statements and the notes thereto, schedules and other financial, statistical data or operating information included or incorporated by reference therein).

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The foregoing opinions are subject to the following qualifications:

a. We express no opinion as to the adequacy of any notice with respect to the disposition of any collateral. We also express no opinion as to the effectiveness or enforceability of provisions relating to waivers of notice or waivers of other rights, severability, prepayment fees or penalties, choice of law, or any provisions which release or limit the Company's liability or relate to cumulative remedies or, to the extent they purport to or would have the effect of compensating the Company in amounts in excess of any actual loss suffered by the Company, provisions relating to the payment of a default rate of interest.

b. We express no opinion as to the enforceability with respect to any provisions in the Indenture executed by the Company purporting to waive the effect of applicable laws and remedies and any provisions releasing any party from, or requiring indemnification for, liability for gross negligence, recklessness or wilful misconduct.

c. Any requirements in the Indenture specifying that provisions of the Indenture may only be waived in writing may not be enforced to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of the Indenture.

d. This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and our statements contained in the opinion portion of this letter must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth in this letter.

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e. The opinions herein are expressed as of the date hereof only and not as of some future date. We undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future. Nor do we assume any obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention. References to "laws," "regulations" and "judicial decisions" herein shall include only officially published federal laws and regulations of the United States of America and the officially published laws and regulations of the Commonwealth of Pennsylvania.

Our opinions expressed above are limited to the laws of the Commonwealth of Pennsylvania and the federal law of the United States of America.

This opinion is furnished by us solely for your benefit and the purchasers of the Global Bond and may not be relied upon by any other person without the express written consent of our firm.

Very truly yours,

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EXHIBIT D

[Letterhead of PSWC]

_____, 1999

To Each of the Addresses Named
on Schedule I of the Placement Agency
Agreement Acting Severally and Not
Jointly in the Capacities of Agent

and Purchaser or in Either Such Capacity

Dilworth Paxson LLP
1735 Market Street
3200 Mellon Bank Center
Philadelphia, PA 19103

RE: \$300,000,000 First Mortgage Bonds,
1998 Medium Term Note Series ("Notes")

Ladies and Gentlemen:

I am Senior Vice President-Law and Administration for Philadelphia Suburban Water Company (the "Company").

Pursuant to Section 5(a)(iii)(B) of the Placement Agency Agreement between you and the Company of December 3, 1999 relating to the \$300,000,000 First Mortgage Bonds, 1998 Medium Term Note Series, I have been asked to render an opinion to you regarding certain matters involving the Company.

In my opinion:

(i) To the best of my knowledge, the Company has all governmental licenses, permits, consents, orders, approvals and other authorizations necessary to carry on its business as described in the Confidential Offering Memorandum dated December 3, 1999 with respect to the Notes, except where the failure to do so would not have a material adverse effect on the financial condition of the Company.

(ii) Except as set forth in the Confidential Offering Memorandum, there are no actions, suits or proceedings pending (and of which the Company has received notice) or, to the best of my knowledge, threatened against or affecting the Company or any of its officers in their capacity as such, before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding is likely that would materially and adversely affect (i) the financial condition of the Company, or (ii) the ability of the Company to perform its obligations under the Placement Agency Agreement, the Paying Agency Agreement, the Original Indenture (as supplemented by the Thirty-Third Supplemental Indenture) or the Notes.

(iii) The Company (a) is not in violation of its Articles of Incorporation, by-laws or other charter documents, (b) to the best of my knowledge, is not in default in the performance of any obligation, agreement or condition contained in any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, note, debenture, note agreement or other evidence of indebtedness, lease, contract or other agreement or instrument known to me to which the Company is a party or by which it or its properties is bound or affected where such default would likely have a material adverse effect on the financial condition of the Company, and (c) to the best of my knowledge the Company is not in violation of any judgment, ruling, decree, order, franchise, license or permit known to me or any statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company, where such violation would likely have a material adverse effect on the financial condition of the Company.

(iv) The execution, delivery and performance of the Placement Agency Agreement, the Thirty-Third Supplemental Indenture, the Paying Agency Agreement and the consummation of the transactions therein contemplated will not, of themselves, or upon notice, lapse of time, or both, conflict with or result in a breach of any of the terms, conditions, or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance upon any of the property or assets of the Company (except as contemplated by the Indenture) pursuant to the terms of the charter or bylaws of the Company, or, to the best of my knowledge, any indenture, mortgage, deed of trust or other agreement or instrument known to me to which the Company is a party or by which the Company may be bound and, to the best of my knowledge, will not materially violate any judgment, ruling, decree, order, franchise, license or permit known to me or any statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company.

(v) Each of the Indenture of Mortgage dated as of January 1, 1941 (the "Original Indenture"), between the Company and The Philadelphia Company for Insurance on Lives and Exacting Annuities (now Chase Manhattan Trust Company, National Association, as successor in interest), as trustee (the "Trustee") and the thirty-three indentures supplemental thereto, including the Thirty-Third Supplemental Indenture dated as of November 15, 1999 between the Company and the Trustee (the Original Indenture as so supplemented and amended, the "Indenture") was duly authorized, executed and delivered by the Company and the Indenture constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

The information set forth herein is as of the date set forth above and the Company and I disclaim any undertaking to provide any updates or changes which thereafter may be brought to our attention.

This opinion is solely for your benefit and may not be relied upon by any other person or for any other purpose.

Very truly yours,

Roy H. Stahl

/sw

EXHIBIT E

TRUSTEE'S CERTIFICATE

The undersigned, Chase Manhattan Trust Company, National Association (hereinafter referred to as the "Bank"), does hereby certify that:

1. It is Trustee under the Indenture of Mortgage dated as of January 1, 1941, of Philadelphia Suburban Water Company (the "Company"), as supplemented and amended by thirty two supplemental indentures and by a Thirty-Third Supplemental Indenture dated as of November 15, 1999 (the "Thirty-Third Supplemental Indenture") between the Company and the Bank relating to the authentication and delivery of a global bond representing the aggregate principal amount of \$_____ of the Company's First Mortgage Bonds, 1999 Medium Term Note Series (Subseries "_")(the "Global Bond")

2. The Thirty-Third Supplemental Indenture has been duly executed on behalf of the Bank by_____, its Vice President; the corporate seal of the Bank has been duly affixed thereto and attested by , its _____; and the Thirty-Third Supplemental Indenture has been duly delivered on behalf of the Bank.

3. The Bank, as Trustee, has:

a. pursuant to Section 5 of Article I of the ThirtyThird Supplemental Indenture, authenticated the Global Bond, which consist of a fully registered Bond as set forth in Exhibit "A" hereto, in the aggregate principal amount of \$_____, bearing the interest rate and maturity date as set forth in Section I of Article 1 of the Thirty-Third Supplemental Indenture, by the execution of the Trustee's Certificate of Authentication thereon by , its _____; and

b. registered said Global Bond in the name of Cede & Co, nominee of the Depository Trust Company ("DTC"), as the registered owner of the

Global Bond, which Global Bond is to be held by The Chase Manhattan Bank as so authenticated and registered on behalf of DTC pursuant to the Medium Term Note Certificate Agreement dated as of December 2, 1988.

4. Set forth below, opposite the names and titles of the above mentioned officers of the Bank, are specimens of their respective signatures.

Name -----	Title -----	Specimen Signatures -----
_____	_____	_____
_____	_____	_____

5. and were, at the time of the acts referred to in paragraph 2 above, and are at the date hereof, duly elected or appointed, qualified and acting officers of the Bank, holding the offices indicated above and were duly authorized to perform such acts, and the signatures appearing on the Thirty-Third Supplemental Indenture are their genuine signatures; and was at the time of the acts referred to in paragraph 3(a) above, and is at the date hereof, a duly elected or appointed, qualified and acting Corporate Trust Officer of the Bank duly authorized to perform such acts, and the signature appearing on said Bonds is her genuine signature.

6. Attached hereto as Exhibit "B" is a true and correct copy of resolutions as adopted by the Board of Directors of the Bank which, at the date hereof, are still in full force and effect, giving requisite authority to such officers to execute and deliver the Thirty-Third Supplemental Indenture and to authenticate the Bonds.

IN WITNESS WHEREOF, Chase Manhattan Trust Company, National Association has caused this Trustee's Certificate to be executed by its duly authorized officer, this ____ day of _____, _____.

Chase Manhattan Trust Company,
National Association

Title:

EXHIBIT "A"

Cert. No. ---	Registered Owner -----	Principal Amount -----	Interest Rate ----	Maturity Date (1) -----
R-1	Cede & Co., as nominee of the Depository Trust Company			

EXHIBIT F

Form of KPMG LLP Letter

EXHIBIT G

PHILADELPHIA SUBURBAN WATER COMPANY

U.S. \$

First Mortgage Bonds
1999 Medium Term Note Series

Maturities From One Year to
Thirty-Five Years From Date of Issue

Amendment to Placement Agency Agreement

New York, New York
[Date]

To Each of the Addressees Named
on Schedule I of the Placement Agency
Agreement Acting Severally and Not
Jointly in the Capacities of Agent and
Purchaser or in Either Such Capacity

Ladies and Gentlemen:

The Placement Agency Agreement dated December 3, 1999 (the "Agreement"), between you and Philadelphia Suburban Water Company, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Issuer"), is hereby amended to increase the aggregate principal amount of Notes (as defined in the Agreement) at any time outstanding to up to U.S. \$.

[The documents referred to in the second sentence of Section 12 of the Agreement shall be delivered simultaneously herewith.]

In all other respects the Agreement shall remain in full force and effect.

This amendment to the Agreement may be executed in counterparts, and the executed counterparts shall together constitute a single instrument.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter shall represent a binding agreement between the Issuer and each of you. This letter shall not constitute a binding agreement unless and until it is executed by the Issuer and each of you.

Very truly yours,

PHILADELPHIA SUBURBAN WATER COMPANY,

by _____
Name:
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date hereof.

by _____
Name:
Title:

EXHIBIT H

PHILADELPHIA SUBURBAN WATER COMPANY
FIRST MORTGAGE BONDS
1999 MEDIUM TERM NOTE SERIES

REQUEST FOR BIDS

Pursuant to Paragraph 2(a)(i) of the Placement Agency Agreement between PSWC ("PSWC") and the agents listed on Schedule I attached thereto dated December 3, 1999 (the "Agreement"), PSWC is requesting bids for Subseries _____ of the above-referenced notes (the "Subseries") to be issued by PSWC on or about _____, _____, subject to the terms set forth in the Agreement including Exhibit A thereto.

The Subseries is to be structured based on the following:

- 1. Principal Amount of Notes \$ _____
- 2. Maturity _____
- 3. [Optional Tender Provision _____]

PHILADELPHIA SUBURBAN WATER COMPANY

DATE: _____

BY: _____

TITLE: _____

EXHIBIT I

PHILADELPHIA SUBURBAN WATER COMPANY
FIRST MORTGAGE BONDS
1999 MEDIUM TERM NOTE SERIES

NOTICE OF APPOINTMENT

Pursuant to Paragraph 2 of the Placement Agency Agreement between PSWC ("PSWC") and the Agents listed on Schedule I attached thereto dated December 3, 1999 (the "Agreement"), _____ is hereby appointed as Placement Agent for the issuance of \$_____ of Subseries _____ of the above-referenced notes to be issued by PSWC on or about _____, _____, subject to the terms set forth on the attached Exhibit A [to be furnished by Issuer at issuance of Notice of Appointment] and further subject to the terms and conditions of the Agreement.

PHILADELPHIA SUBURBAN WATER COMPANY

DATE: _____

BY: _____

TITLE: _____

Philadelphia Suburban Corporation and Subsidiaries

Selected Portions of Annual Report to Shareholders for the year ended
December 31, 1999

PHILADELPHIA SUBURBAN CORPORATION 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 Philadelphia Suburban Corporation ("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 address, among other things, our use of cash; projected capital expenditures; liquidity; as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, and acquisitions. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL INFORMATION

Philadelphia Suburban Corporation is the holding company for regulated utilities providing water or wastewater services to approximately 1.8 million people in Pennsylvania, Ohio, Illinois, New Jersey and Maine. Our two primary subsidiaries are Philadelphia Suburban Water Company ("PSW"), a regulated public utility that provides water or wastewater services to about 1 million residents in the suburban areas west and north of the City of Philadelphia, and Consumers Water Company ("CWC"), a holding company for several regulated public utility companies that provide water or wastewater service to about 800,000 residents in various communities in Pennsylvania, Ohio, Illinois, New Jersey and Maine. We are among the largest investor-owned water utilities in the United States based on the number of customers. In addition, PSW and CWC provide water service to approximately 25,000 people through operating and maintenance contracts with municipal authorities and other parties in proximity to the operating company's service territories.

On March 10, 1999, we completed a merger (the "Merger") with CWC. We issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became our wholly-owned subsidiary. CWC owns 100% of the voting stock of four water companies, and at least 96% of the voting stock of three water companies, operating in Pennsylvania, Ohio, Illinois, New Jersey and Maine. CWC's subsidiaries operate 27 divisions in these five states, providing water service to approximately 800,000 people. The Merger was accounted for under the pooling-of-interests method of accounting. Accordingly, this report has been restated to include the accounts and results of CWC as if the Merger had been completed as of the beginning of the earliest period presented.

Subsidiaries of PSW and CWC provide wastewater services (primarily residential) to approximately 28,000 people in Pennsylvania, Illinois and New Jersey. During 1999 and each of the previous four years, the operating revenues associated with wastewater services have been less than 3% of our operating revenues.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Following are our selected five-year financial statistics:

Years ended December 31,	1999	1998	1997	1996	1995
Operating revenues (c)	\$257,326	\$250,771	\$235,852	\$215,971	\$208,100
Income from continuing operations	\$ 36,384	\$ 45,015	\$ 35,210	\$ 29,204	\$ 29,887
Income from continuing operations before income taxes and non-recurring items (a)	\$ 73,036	\$ 68,453	\$ 57,642	\$ 48,554	\$ 49,087
Operating Statistics					
Operating revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operations and maintenance	38.4%	39.9%	40.9%	43.0%	43.8%
Depreciation and amortization	12.4%	11.8%	11.9%	11.7%	10.5%
Taxes other than income taxes	8.5%	8.7%	9.1%	9.3%	8.8%
Interest expense (b)	13.1%	12.8%	14.1%	14.0%	13.9%
Allowance for funds used during construction	(0.8)%	(0.5)%	(0.4)%	(0.5)%	(0.6)%
Total costs and expenses	71.6%	72.7%	75.6%	77.5%	76.4%
Income from continuing operations before income taxes and non-recurring items (a)	28.4%	27.3%	24.4%	22.5%	23.6%
Effective tax rates (c)	42.2%	40.1%	38.9%	39.9%	39.8%

- (a) Non-recurring items include the 1999 charges of \$8,596 (\$10,121 pre-tax) for transaction costs and restructuring costs related to the Merger with Consumers Water Company, the 1998 gain of \$3,903 (\$6,680 pre-tax) on the sale of Consumer Water Company's New Hampshire system and the 1995 gain of \$363 (\$586 pre-tax) on the sale of a division of Consumers Maine Water Company.
- (b) Includes dividends on preferred stock of subsidiary and minority interest.
- (c) Continuing operations only.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Following are our selected five-year operating and sales statistics:

Years ended December 31,	1999	1998	1997	1996	1995
--------------------------	------	------	------	------	------

Metered water customers	Residential	497,937	478,160	473,309	467,210	445,496
	Commercial	29,241	27,612	26,369	26,003	24,493
	Industrial	1,430	1,327	1,386	1,387	1,237
	Other	9,067	8,277	7,574	7,305	6,328
	Total	537,675	515,376	508,638	501,905	477,554
Revenues from water sales	Residential	\$ 154,881	\$ 156,523	\$ 148,323	\$ 135,848	\$ 132,419
	Commercial	45,192	44,894	40,439	38,238	35,457
	Industrial	13,944	13,970	12,818	12,396	11,618
	Other	31,999	25,672	25,132	23,612	21,947
	Total	\$ 246,016	\$ 241,059	\$ 226,712	\$ 210,094	\$ 201,441

RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 7.5% during the five-year period ended December 31, 1999. Exclusive of the 1999 CWC merger transaction costs and related restructuring costs of \$8,596 (\$10,121 pre-tax), income from continuing operations grew at an annual compound rate of 12.2% during the past five years.

During this same period, operating revenues grew at a compound rate of 6.4% and total expenses, exclusive of income taxes, merger transaction costs and the related restructuring costs, grew at a compound rate of 4.6%.

Operating Revenues

The growth in revenues over the past five years is a result of increases in the customer base and in water rates. The number of customers increased at an annual compound rate of 3.1% in the past five years primarily as a result of acquisitions of local water systems. Acquisitions made during the five-year period ended December 31, 1999 have provided water revenues of approximately \$20,106 in 1999, \$19,293 in 1998 and \$12,047 in 1997. Excluding the effect of acquisitions, our customer base increased at a five-year annual compound rate of 0.8%. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$1,700 in 1999, \$13,300 in 1998 and \$4,700 in 1997. In April 1998, CWC's New Hampshire system was sold under a condemnation statute. The operating revenues associated with the New Hampshire system were \$1,600 in 1998 and \$6,500 in 1997. In addition to water and wastewater revenues, operating revenues include the net gains on sales of properties of \$780 in 1999, \$53 in 1998 and \$690 in 1997, and other non-regulated revenues associated with operating and management contracts, rental income, data processing service fees and sales of timber of \$5,295 in 1999, \$4,904 in 1998 and \$4,072 in 1997.

Economic Regulation - 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 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. Accordingly, we maintain a rate case management capability to ensure that the tariffs of the utility operations reflect, to the extent practicable, current costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. In assessing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the

changes in the cost of capital and changes in the capital structure. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions. The rates for some divisions of CWC's Ohio subsidiary can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utility Commission of Ohio. Currently, two of the four regulated divisions in Ohio are operating under such rate ordinances.

In October 1999, PSW, in conjunction with CWC's Pennsylvania subsidiaries, filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a \$28,000 or 15.5% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by July 2000. In October 1997, the PAPUC approved a rate settlement reached between PSW and the parties actively litigating the rate application PSW filed in April 1997. The settlement was designed to increase PSW's annual revenues by \$9,300 or 7.3% over the level in effect at the time of the filing. The rates in effect at the time of the filing included a 1% or \$1,300 Distribution System Improvement Charge ("DSIC"). Consequently, the settlement resulted in a total base rate increase of \$10,600 or 8.3%.

The CWC operating subsidiaries were allowed annual rate increases of \$390 for 1999, \$3,334 for 1998 and \$2,769 for 1997, represented by two, five, and four rate decisions. Revenues from these increases realized in the year of grant were approximately \$308 in 1999, \$1,969 in 1998, and \$489 in 1997.

Distribution System Improvement Charge - In 1996, the PAPUC approved the Distribution System Improvement Charge ("DSIC"). The DSIC is a mechanism that allows Pennsylvania water utilities to add a surcharge to their water bills. This surcharge offsets the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating distribution systems. Prior to the DSIC mechanism, water utilities absorbed 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 base rates is known as regulatory lag. The DSIC mechanism is intended to substantially reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems.

The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. However, the DSIC may not exceed 5% of the base rates in effect. The DSIC 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 PUC benchmark. The DSIC in the first quarter of 2000 has been set at 5% and is expected to continue at 5% until new base rates become effective. The DSIC provided revenues of \$4,140 in 1999, \$229 in 1998 and \$1,104 in 1997.

In May 1999, the Illinois legislature passed a bill to establish a DSIC mechanism in Illinois. The Illinois Commerce Commission is analyzing the mechanism currently and considering approval of the DSIC for use by Illinois water utilities beginning in 2001.

Rate Surcharges - In addition to its base rates and DSIC, PSW and CWC's Pennsylvania subsidiaries have utilized a surcharge or credit on their bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated into base rates. Operating revenues were increased by rate surcharges in 1999 by \$1,306, and rate credits reduced operating revenues in 1998 by \$117.

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 and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. However, it is difficult to correlate weather and water consumption, since conservation and even day-to-day variations in weather patterns can have a significant effect. Conservation efforts, construction codes which require the use of low flow plumbing fixtures as well as mandated water use restrictions in response to drought conditions also affect water consumption.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Our water customers are located in the following states: 66% in Pennsylvania, 15% in Ohio, 10% in Illinois, 6% in New Jersey and 3% in Maine. In June 1999, the Pennsylvania Department of Environmental Protection declared a drought warning for most of the counties in Pennsylvania, including the counties served by PSW and CWC's Pennsylvania subsidiaries. A drought warning calls for voluntary restrictions on water use, particularly non-essential uses of water. In July 1999, the Governor of Pennsylvania issued a drought emergency order for the counties that were previously under the drought warning. The drought emergency imposes a mandatory ban on all nonessential water usage. On September 30, 1999, the drought emergency order was lifted for nearly all Pennsylvania counties, including those served by our water companies. While portions of Pennsylvania, particularly those dependent on ground water, experienced water shortages, our water supplies remained adequate. As a result of these actions, water consumption and water revenues in these areas declined to levels below those experienced in 1998. As a result of the drought emergency order being lifted, water revenues began to return to normal levels during the fourth quarter of 1999. In addition, CWC's New Jersey subsidiary experienced a similar drought emergency during most of the third quarter of 1999.

There have been other water use restrictions during the past three years, however, because these warnings were issued at times other than the summer months, when nonessential and recreational use of water has traditionally declined, the restrictions did not have a significant impact on operating revenues. Throughout the restriction periods, we had sufficient quantities of raw water and maintained adequate storage levels of treated water.

Operations and Maintenance

Operations and maintenance expenses totaled \$98,758 in 1999, \$100,139 in 1998 and \$96,571 in 1997. Most elements of operating costs are subject to the effects of inflation, as well as the effects of changes in the number of customers served, in water consumption 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, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and to a lesser extent the deregulated electric market in some of the states in which we operate. Maintenance expenses are sensitive to extreme cold weather, which can cause water mains to rupture.

Operations and maintenance expenses decreased in 1999 as compared to 1998 by \$1,381 or 1.4% due to a reduction in general corporate expenses due to the closing of CWC's corporate office in March 1999, savings from reduced electric costs as a result of electric deregulation in Pennsylvania, elimination of \$590 of operations and maintenance expenses associated with CWC's New Hampshire operations which was sold in April 1998, offset in part by labor wage increases and increased maintenance and production costs. Increased maintenance expenses resulted from a higher number of main breaks experienced in 1999. The increased wages reflect normal merit increases.

Operations and maintenance expenses increased in 1998 over 1997 by \$3,568 or 3.7% primarily as a result of higher production costs resulting from the increased volume of water sold and increased wages and administrative expenses, partially offset by the elimination of \$1,788 of operations and maintenance expenses associated with the CWC's New Hampshire operations which was sold in April 1998. The increased wages reflect normal merit increases.

Depreciation and Amortization

Depreciation expense was \$30,612 in 1999, \$27,189 in 1998 and \$25,581 in 1997, and has increased principally as a result of the significant capital expenditures made to expand and improve the utility facilities, and as a result of acquisitions of water systems. A portion of the 1998 increase also resulted from accelerated depreciation rates granted in a rate case due to a major treatment plant replacement.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Amortization was \$1,291 in 1999, \$2,275 in 1998 and \$2,396 in 1997. The decrease in 1999 is due to the completion of the amortization in 1998 of the costs associated with and the other costs being recovered in PSW's 1997 rate filing. The decrease in 1998 is due to the reduced amortization associated with CWC's New Hampshire operations which was sold in April 1998. 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 decreased by approximately 0.4% in 1999 as compared to 1998, and increased 2.7% in 1998 over the previous year. The decrease in 1999 is associated with a decrease in the Pennsylvania Public Utility Realty Tax ("PURTA") and due to \$285 of other taxes associated with CWC's New Hampshire operations which was sold in April 1998. The decreased PURTA is a result of a change in the method by which the tax is calculated in 1999. The increase in 1998 over 1997 was due to an increase in the base on which the PURTA, local real estate taxes and the Pennsylvania Capital Stock Tax are calculated, partially offset by \$665 of other taxes associated with CWC's New Hampshire operations which was sold in April 1998. The increase in the taxable base for the PURTA and local real estate taxes is due to the capital expenditures and the acquisitions. In addition, the effective PURTA tax rate increased in 1998 by 24%. The effective PURTA tax rate increased due to an additional tax assessment to offset a statewide deficit in the collection of this tax. The increase in the Capital Stock Tax is due to increases in common equity.

Restructuring costs

During 1999, we recorded a charge of \$3,787 for restructuring costs that includes severance of \$2,940 and exit costs associated with the closing of CWC's corporate office.

Interest Expense, net

Net interest expense was \$33,698 in 1999, \$31,888 in 1998 and \$32,664 in 1997. Interest expense increased in 1999 over 1998 primarily as a result of higher levels of borrowing in order to finance capital expenditures and the acquisition of other water systems, offset in part by a reduction in debt associated with Consumers New Hampshire operations. Interest expense decreased in 1998 as compared to 1997 due to a reduction in debt associated with Consumers New Hampshire operations and lower interest rates on borrowings, offset in part by a higher level of debt in order to finance acquisitions and other capital expenditures.

Dividends on Preferred Stock of Subsidiary and Minority Interest

Dividends on preferred stock of subsidiary were \$0 in 1999, \$70 in 1998 and \$515 in 1997. The change in dividends in 1999 and 1998 over the preceding year is due to a reduction in the number of shares of preferred stock outstanding during these periods.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was \$1,995 in 1999, \$1,245 in 1998 and \$937 in 1997 and has varied over the years as a result of increases in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate. The average balance of CWIP, to which AFUDC is applied, increased due to the increased level of capital expenditures in 1999, 1998 and 1997, particularly due to the construction of a \$35,000 water treatment plant at one of CWC's Pennsylvania subsidiaries. Construction commenced on this facility in December 1997 and is expected to be completed in the second quarter of 2000.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Merger transaction costs

During the first quarter of 1999, we recorded a charge of \$6,334 for transaction costs associated with the Merger of Consumers Water Company consummated on March 10, 1999. The charge represents the fees for investment bankers, attorneys, accountants and other administrative charges.

Gain on Sale of New Hampshire System

In April 1998, CWC's New Hampshire subsidiary sold its utility assets to the Town of Hudson under the New Hampshire condemnation statute for \$33,728, net of certain closing costs. The sale generated a gain of \$6,680 (\$3,903 net of taxes, or \$0.10 per share), and was recorded in the second quarter of 1998. This system had approximately 8,200 customers and operating revenues of \$1,600 in 1998 prior to the sale and \$6,500 in 1997. The interest savings associated with paying off the outstanding borrowings under the revolving credit agreements with the proceeds from this sale, principally offset the reduction of the New Hampshire system's normal contribution to income.

Income Taxes

Our effective income tax rate was 42.2% in 1999 as compared to 40.1% in 1998 and 38.9% in 1997. The effective tax rate increased in 1999 due to the estimated non-deductible portion of the \$6,334 of merger transaction costs recorded in 1999. Exclusive of the merger transaction costs and related tax benefits of \$200, the 1999 effective tax rate would have been 38.6%. The changes in the effective tax rates in 1999 and 1998 are due to differences between tax deductible expenses and book expenses.

Discontinued Operations

In 1997, the Board of Directors of CWC announced its intention to dispose of its technical services company, Consumers Applied Technologies, Inc. ("CAT"). A reserve for estimated losses and certain future costs was established in 1997 of \$2,350, net of tax benefits of \$1,211. CWC had been unable to sell CAT as an on-going business and is proceeding with its liquidation. CAT's operations were substantially shutdown during 1997. The operating results of CAT prior to the date of discontinuance are shown under discontinued operations on the accompanying consolidated statements of income and comprehensive income. Operating revenues for CAT for 1998 and 1997 were \$393 and \$4,573.

Summary

Operating income was \$101,045 in 1999, \$99,238 in 1998 and \$89,959 in 1997 and income from continuing operations was \$36,384 in 1999, \$45,015 in 1998 and \$35,210 in 1997. Our operating results have been effected by the following non-operating items in 1999 and 1998. Operating income and income from continuing operations for 1999 includes the charge for restructuring costs related to the CWC Merger of \$3,787 (\$2,462 after tax or \$0.06 per share). Income from continuing operations for 1999 includes the charge for \$6,334 (\$6,134 after tax or \$0.15 per share) of merger transaction costs associated with the CWC Merger. Income from continuing operations for 1998 includes a net gain of \$6,680 (\$3,903 after tax or \$0.10 per share) on the sale of CWC's New Hampshire operations. Diluted income per share from continuing operations was \$0.88 in 1999, \$1.10 in 1998 and \$0.90 in 1997. Diluted income per share from operations, exclusive of the aforementioned non-recurring items, was \$1.09 in 1999, \$1.00 in 1998 and \$0.90 in 1997. The changes in the per share income in 1999 and 1998 over the previous years were due to the aforementioned changes in income and impacted by a 1.1% and 4.7% increase in the average number of common shares outstanding during 1999 and 1998.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
 (In thousands of dollars, except per share amounts)

Fourth Quarter Results

Net income available to common stock for the fourth quarter of 1999 increased over the same period in 1998 by \$990 to \$9,594 primarily as a result of a \$930 increase in operating revenues, a \$129 decrease in operations and maintenance expenses and a decrease in income tax expense, offset partially by increases in depreciation and interest expense. The increase in operating revenues was a result of an increase in water rates, primarily from the DSIC, and additional revenues from acquisitions, offset in part by a decrease in water consumption. Operations and maintenance expenses decreased primarily due to a reduction in general corporate expenses related to the closing of CWC's corporate office and reduced production costs, offset partially by increased wages and maintenance expenses. Income tax expense decreased due to expenses deductible for taxes but not included as book expenses. Depreciation increased due to utility plant additions and the water system acquisitions made since the fourth quarter of 1998. Interest expense increased in the fourth quarter primarily as a result of higher borrowing levels and increased interest rates.

Effects of Inflation

As a regulated enterprise, our rates are established to provide recovery of costs and a return on its investment. Recovery of the effects of inflation through higher water 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. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on our operating results are not significant.

FINANCIAL CONDITION

Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1999 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1995	53,217	23,452	73,369
1996	56,274	25,137	66,130
1997	71,252	26,752	67,378
1998	84,362	29,349	87,973
1999	74,103	29,217	96,383
	\$ 339,208	\$ 133,907	\$ 391,233

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants; new water mains and customer service lines; rehabilitation of existing water mains, hydrants and customer service lines; water meters; and the construction of a divisional operations center. During this five-year period, we received \$34,750 of customer advances and contributions in aid of construction to finance new water mains. In addition, during this period, we have made sinking fund contributions and retired debt in the amount of \$92,518, and retired \$11,460 of preferred stock, and have refunded \$19,383 of customer advances for construction. Despite an annual increase in the common dividends declared and paid on our common stock over the past five years, the total common dividends paid in 1999 declined as compared to 1998 due to the exchange of the Consumers

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

During the past five years, we have also expended \$140,751 related to the acquisitions of utility systems, primarily water utilities and some wastewater utilities. In addition in March 1999, we completed the Merger with Consumers Water Company. On the date of the Merger, we issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC. In 1998, CWC's New Hampshire operations were sold under the New Hampshire condemnation statute for \$33,728, net of certain closing costs, which was used to pay down long-term debt.

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 \$254,000 of First Mortgage Bonds and obtained other short-term borrowings during the past five years. In February 1998, we sold 1,250,000 shares of common stock in a public offering for net proceeds of \$25,840. The proceeds of this offering were used to make a \$19,000 equity contribution to PSW and to repay short-term debt.

We have a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that replaced the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan in December 1997. Under the direct stock purchase portion of the Plan, shares are sold throughout the year and the shares are obtained by our transfer agent in the open market instead of issuing original issue shares of stock, as was done under the previous plan. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 1999 dividend payment, holders of 18.3% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. During the past five years, we have sold 2,118,460 original issue shares of common stock for net proceeds of \$29,279 through the dividend reinvestment program. During the past five years, and before its replacement in December 1997, we have sold 1,356,154 original issue shares of common stock for net proceeds of \$15,755 through the former Customer Stock Purchase Plan. Proceeds from these plans were used to invest in PSW, to relieve PSW of the need to pay a dividend to us, to repay short-term debt, and for general corporate purposes.

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. We purchased 81,400 shares in 1999, 151,406 shares in 1998 and 152,000 shares in 1997 at a net cost of \$1,771 in 1999, \$3,333 in 1998 and \$2,284 in 1997. As of December 31, 1999, 395,339 shares remain available for purchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

Our planned 2000 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$110,602 of which \$34,265 is for DSIC qualified projects. PSW has increased its capital spending for infrastructure rehabilitation in response to the DSIC. Should the DSIC be discontinued for any reason, which is not anticipated, PSW would likely reduce its capital program significantly. The 2000 capital program of PSW and CWC, along with \$12,194 of sinking fund obligations and debt maturities is expected to be financed through internally-generated funds, the revolving credit facilities, our equity investments and the issuance of new long-term debt.

We continue to hold acquisition discussions with several water systems. The cash needed for acquisitions is expected to be funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or our equity investments.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Future utility construction in the period 2001 through 2004, including recurring programs, such as the ongoing replacement of water meters, the rehabilitation of water mains 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 \$400,000. We anticipate that less than one-half of these expenditures will require external financing including the additional issuance of Common Stock through our dividend reinvestment plan and possible future public equity offerings. We expect to refinance \$91,375 of debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

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 or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by PSW and the CWC operating subsidiaries to achieve an adequate level of earnings to enable it to secure the capital it will need and to maintain satisfactory debt coverage ratios.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

Capitalization

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

December 31,	1999	1998	1997	1996	1995
Long-term debt*	53.8%	51.9%	56.9%	57.9%	56.5%
Preferred stock*	0.2%	0.4%	1.0%	1.3%	1.1%
Common stockholders' equity **	46.0%	47.7%	42.1%	40.8%	42.4%
	100.0%	100.0%	100.0%	100.0%	100.0%

*Includes current portion.

** Excludes minority interest.

The changes in the capitalization ratios primarily result from the issuance of common stock over the past five years and the issuance of debt to finance our acquisitions and capital program. It is our goal to maintain an equity ratio adequate to support PSW's current Standard and Poors debt rating of "AA-" and to support CWC's current debt rating of an NAIC (National Association of Insurance Commissioners) "2".

Dividends on Common Stock

We have paid common dividends consecutively for 55 years. In 1999, our Board of Directors authorized an increase of 5.9% in the dividend rate over the amount we previously paid. As a result of this authorization, beginning with the dividend payment in September, the annual dividend rate increased to \$0.72 per share. 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, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the pooling, our common dividends paid have averaged 76.2% of income from continuing operations.

YEAR 2000

We actively pursued a Year 2000 Program (the "Program"). The objective of the Program was to provide reasonable assurance that our critical systems and processes that impact our ability to deliver water to our customers would not experience significant interruptions that would interfere with such water service or result in a material business impairment that would have an adverse impact on our operations, liquidity or financial condition as a result of the Year 2000 issue. For purposes of the Program, the Year 2000 issue was defined as whether information technology accurately processes date and time data from, into and between the twentieth and twenty-first centuries, and the years 1999 and 2000 and leap year calculations. To date, our water treatment plants and other mission critical systems have not been impacted by the Year 2000 issue, and there have been no water service interruptions as a result of a Year 2000 issue. We continue to monitor the Year 2000 issue but do not anticipate that we will experience a material business impairment or have a material adverse impact on our operations, liquidity or financial condition as a result of the Year 2000 issue.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
(In thousands of dollars, except per share amounts)

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." We adopted this statement on January 1, 1999 as required. The adoption of SOP 98-1 did not affect results from operations, financial condition or long-term liquidity.

In April 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Costs of Start-Up Activities." We adopted this statement on January 1, 1999 as required. The adoption of SOP 98-5 did not affect results from operations, financial condition or long-term liquidity.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in June 1999 amended this standard by issuing SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 137 changed the timing of the implementation of SFAS No. 133. We plan to adopt these statements in 2001 as required. As of December 31, 1999, we had no derivative instruments or hedging activities.

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MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1999, 1998 and 1997 were prepared by management in accordance with generally accepted accounting principles and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility and dissemination of policies and procedures.

The Company's independent auditors, KPMG LLP, provide an independent review of management's reporting of results of operations and financial condition. KPMG has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is comprised of three outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1999.

Nicholas DeBenedictis

David P. Smeltzer

Nicholas DeBenedictis
Chairman &
President

David P. Smeltzer
Senior Vice President - Finance

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income and comprehensive income, and cash flow for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting

the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
January 31, 2000

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
Years ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Operating revenues	\$ 257,326	\$ 250,771	\$ 235,852
Costs and expenses:			
Operations and maintenance	98,758	100,139	96,571
Depreciation	30,612	27,189	25,581
Amortization	1,291	2,275	2,396
Taxes other than income taxes	21,833	21,930	21,345
Restructuring costs	3,787	-	-
	-----	-----	-----
	156,281	151,533	145,893
Operating income	101,045	99,238	89,959
Other expense (income):			
Interest expense, net	33,698	31,888	32,664
Dividends on preferred stock of subsidiary and minority interest	93	142	590
Allowance for funds used during construction	(1,995)	(1,245)	(937)
Merger transaction costs	6,334	-	-
Gain on sale of New Hampshire system	-	(6,680)	-
	-----	-----	-----
Income from continuing operations before income taxes	62,915	75,133	57,642
Provision for income taxes	26,531	30,118	22,432
	-----	-----	-----
Income from continuing operations	36,384	45,015	35,210
Discontinued operations:			
Loss from operations, net of tax	-	-	387
Loss on disposal of discontinued operations, net of tax	-	-	2,350
	-----	-----	-----
Net income	36,384	45,015	32,473
Dividends on preferred stock	109	195	195
	-----	-----	-----
Net income available to common stock	\$ 36,275	\$ 44,820	\$ 32,278
	=====	=====	=====
Net income	\$ 36,384	\$ 45,015	\$ 32,473
Other comprehensive income, net of tax	2,020	-	-
	-----	-----	-----
Comprehensive income	\$ 38,404	\$ 45,015	\$ 32,473
	=====	=====	=====
Basic net income (loss) per common share:			
Continuing operations	\$ 0.89	\$ 1.11	\$ 0.91
Discontinued operations	-	-	(0.07)
	-----	-----	-----
Total	\$ 0.89	\$ 1.11	\$ 0.84
	=====	=====	=====
Diluted net income (loss) per common share:			

Continuing operations	\$ 0.88	\$ 1.10	\$ 0.90
Discontinued operations	-	-	(0.07)
Total	\$ 0.88	\$ 1.10	\$ 0.83
Average common shares outstanding during the period:			
Basic	40,864	40,362	38,650
Diluted	41,305	40,854	39,018

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 1999 and 1998

	1999	1998
Assets		
Property, plant and equipment, at cost	\$ 1,393,027	\$ 1,248,621
Less accumulated depreciation	257,663	232,427
Net property, plant and equipment	1,135,364	1,016,194
Current assets:		
Cash and cash equivalents	4,658	8,247
Accounts receivable and unbilled revenues, net	44,399	40,768
Inventory, materials and supplies	3,948	3,857
Prepayments and other current assets	6,520	7,026
Total current assets	59,525	59,898
Regulatory assets	58,287	57,697
Deferred charges and other assets, net	27,629	22,944
	\$ 1,280,805	\$ 1,156,733
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,760	\$ 3,220
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 41,627,644 and 41,235,603 in 1999 and 1998	20,814	20,617
Capital in excess of par value	251,440	244,457
Retained earnings	101,533	91,683
Minority interest	2,604	2,589
Treasury stock, 615,038 and 533,292 shares in 1999 and 1998	(11,270)	(9,478)
Accumulated other comprehensive income	2,020	-
Total stockholders' equity	368,901	353,088
Long-term debt, excluding current portion	413,752	374,374
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	12,194	2,981
Loans payable	103,069	63,550
Accounts payable	24,286	25,248
Accrued interest	8,994	8,406
Accrued taxes	12,689	14,382
Other accrued liabilities	22,581	20,462
Total current liabilities	183,813	135,029
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	136,528	126,809
Customers' advances for construction	59,494	57,781
Other	8,434	8,735
Total deferred credits and other liabilities	204,456	193,325
Contributions in aid of construction	109,883	100,917
	\$ 1,280,805	\$ 1,156,733

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 1999 and 1998

	1999	1998
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,760	\$ 3,220
Common stock, \$.50 par value	20,814	20,617
Capital in excess of par value	251,440	244,457
Retained earnings	101,533	91,683
Minority interest	2,604	2,589
Treasury stock	(11,270)	(9,478)
Accumulated other comprehensive income	2,020	-
Total stockholders' equity	368,901	353,088
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	858	949
2.50% to 4.99%	824	-
5.00% to 5.49%	2,200	-
5.50% to 5.99%	31,545	21,945
6.00% to 6.49%	127,210	87,210
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	38,000	40,001
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	16,500	16,500
8.50% to 8.99%	9,003	9,011
9.00% to 9.49%	53,695	53,776
9.50% to 9.99%	51,220	51,820
10.00% to 10.55%	6,000	6,000
Total First Mortgage Bonds	415,255	365,412
Notes payable to banks under revolving credit agreements, due June 2000	9,200	10,400
Installment note payable, 9%, due in equal annual payments through 2013	1,491	1,543
Current portion of long-term debt	425,946	377,355
Long-term debt, excluding current portion	12,194	2,981
Total capitalization	413,752	374,374
	\$ 782,653	\$ 727,462

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Cash flows from operating activities:			
Net income	\$ 36,384	\$ 45,015	\$ 32,473
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	31,903	29,464	27,977
Deferred income taxes	6,342	9,957	5,883
Gain on sale of New Hampshire system	-	(6,680)	-
Net increase in receivables, inventory and prepayments	(3,073)	(3,623)	(933)
Net increase in payables, accrued interest and other accrued liabilities	444	11,216	4,801
Other	1,600	(2,476)	(1,483)
Net cash flows from discontinued operations	503	1,489	184
Net loss from discontinued operations	-	-	2,350
Net cash flows from operating activities	74,103	84,362	71,252
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$1,995, \$1,245 and \$937	(96,383)	(87,973)	(67,378)
Acquisitions of water and wastewater systems	(39,164)	(24,498)	(1,226)
Proceeds from sale of New Hampshire system	-	33,728	-
Other	(5,069)	(899)	125
Net cash flows used in investing activities	(140,616)	(79,642)	(68,479)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	5,345	3,902	8,069
Repayments of customers' advances	(4,077)	(3,062)	(4,215)
Net proceeds (repayments) of short-term debt	39,519	(4,615)	6,316
Proceeds from long-term debt	54,412	33,395	29,631
Repayments of long-term debt	(6,733)	(24,918)	(25,997)
Redemption of preferred stock	(1,460)	(4,214)	(1,438)
Proceeds from issuing common stock	7,061	32,589	14,258
Repurchase of common stock	(1,773)	(3,334)	(2,287)
Dividends paid on preferred stock	(117)	(195)	(195)
Dividends paid on common stock	(29,217)	(29,349)	(26,752)
Other	(36)	(46)	(82)
Net cash flows from (used in) financing activities	62,924	153	(2,692)
Net increase (decrease) in cash and cash equivalents	(3,589)	4,873	81
Cash and cash equivalents at beginning of year	8,247	3,374	3,293
Cash and cash equivalents at end of year	\$ 4,658	\$ 8,247	\$ 3,374

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Merger with Consumers Water Company, Acquisitions and Water Sale Agreements, Income Taxes and Employee Stock and Incentive Plans footnotes for description of non-cash activities.

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Summary of Significant Accounting Policies

Basis of Presentation - On March 10, 1999, Philadelphia Suburban Corporation (the "Company") completed a merger (the "Merger") with Consumers Water Company ("CWC"). On the date of the Merger, the Company issued 13,014,015 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary of the Company. The Merger has been accounted for as a pooling-of-interests under Accounting Principles Board Opinion No. 16. Accordingly, the Company's consolidated financial statements and footnotes presented in this report have been restated to include the accounts and results

of CWC as if the Merger had been completed as of the beginning of the earliest period presented.

Nature of Operations - The business of the Company is conducted primarily through its wholly-owned subsidiary Philadelphia Suburban Water Company ("PSW") and the seven operating companies of CWC. PSW is a regulated public utility which supplies water to approximately 319,000 customers. The service territory of PSW covers an area located west and north of the City of Philadelphia. CWC owns 100% of the voting stock of four water companies and at least 96% of the voting stock of three water companies. These water companies are regulated utilities providing water and wastewater service in 27 operating divisions to approximately 230,000 customers in Pennsylvania, Ohio, Illinois, New Jersey and Maine. In addition, the Company provides water service to approximately 8,500 customers through operating and maintenance contracts in Pennsylvania, Illinois and Maine.

The customers of PSW and CWC's operating subsidiaries are residential, commercial and industrial in nature. The regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries as of December 31, 1999. All material intercompany accounts and transactions have been eliminated.

Recognition of Revenues - Revenues 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. Non-utility revenues are recognized when services are performed.

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 certain 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. At December 31, 1999, utility plant includes a net credit acquisition adjustment of \$8,403, which is being amortized over 20 to 40 years. Consistent with the Company's rate settlements, \$575 was amortized during 1999, \$565 was amortized during 1998 and \$534 was amortized during 1997.

Utility expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. 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.

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.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, have been reviewed for impairment. There has been no change

in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated 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 or contributions in aid of construction. 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 was \$57 in 1999. There was no AFUDC related to equity funds in 1998 or 1997.

Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, rate case expenses, other costs and marketable securities.

Deferred bond issuance expenses are amortized by the straight-line method 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.

Expenses associated with filing for rate increases are deferred and amortized over periods that generally range from one to three years. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery.

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.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the 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 allowed currently 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.

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse the Company its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main 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. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of \$10,069, \$8,774 and \$6,080 in 1999, 1998 and 1997.

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.

Inventories, Materials and Supplies - Inventories are stated at cost, not in excess of market value. Cost is determined using the first-in, first-out method and the average cost method.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Stock-Based Compensation - The Company adopted SFAS No. 123, "Accounting for

Stock-Based Compensation", electing the provision of the statement allowing it to continue its practice of not recognizing compensation expense related to granting of stock options to the extent that the option price of the underlying stock was equal to, or greater than, the market price on the date of option grant. Disclosure of the impact on the results of operations, had the Company elected to recognize compensation expense, is provided in the Employee Stock and Incentive Plans footnote as required by the Statement.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year's presentation.

Merger with Consumers Water Company

On March 10, 1999, the Company completed a merger ("the Merger") with CWC. Pursuant to the merger agreement, the Company issued 13,014,015 shares of Common Stock in exchange for all of the outstanding stock of CWC. CWC common shareholders received 1.432 shares of the Company's Common Stock for each CWC common share and CWC preferred shareholders received 5.649 shares of the Company's Common Stock for each CWC preferred share. As a result of the Merger, CWC became a wholly-owned subsidiary of the Company. CWC's seven water companies serve approximately 230,000 customers in service territories covering parts of Pennsylvania, Ohio, Illinois, New Jersey and Maine. The results of operations previously reported by PSC and CWC are as follows (certain amounts previously reported have been reclassified to conform to the current presentation):

	Years Ended December 31,	
	1998	1997
Operating Revenues		
PSC	\$ 150,977	\$ 136,171
CWC	98,469	98,339
Combined	\$ 249,446	\$ 234,510
Net income		
PSC	\$ 28,819	\$ 23,188
CWC	16,251	9,339
Combined	\$ 45,070	\$ 32,527

During 1999, the Company recorded a charge of \$6,334 (\$6,134, after tax benefits of \$200) for merger transaction costs consisting primarily of fees for investment bankers, attorneys, accountants and other administrative charges. In addition, the Company recorded a restructuring reserve of \$3,787 (\$2,462, after tax benefits of \$1,325) in 1999 that includes severance of \$2,940 and exit costs associated with the closing of CWC's corporate office. Through December 31, 1999, the initial reserve has been reduced principally by cash payments of \$3,434 and the balance is anticipated to be paid during the second quarter of 2000. The merger transaction costs have been reported in Other expenses and the restructuring costs have been reported as Costs and expenses in the Consolidated Statements of Income and Comprehensive Income.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Acquisitions and Water Sale Agreements

During 1999, exclusive of the Merger, 16 acquisitions or other growth ventures were completed in the five states in which the Company operates. These transactions have added 17,250 customers to the Company's customer base. The largest of these transactions was the acquisition of the water utility assets of Bensalem Township in December 1999, which has added 14,945 customers. The total purchase price for the systems acquired in 1999 was \$39,164 in cash. The increase in annual revenues resulting from the acquired systems approximate \$4,900 (unaudited) and operating revenues included in the consolidated financial statements during the period owned by the Company were \$559.

During 1998, five water system acquisitions were completed and two long-term water sale agreements were obtained in Pennsylvania and New Jersey. These transactions have added 9,007 customers to the Company's customer base. The total purchase price of \$25,380 for the five water systems acquired in 1998 was \$24,498 in cash and the issuance of 42,000 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired and new water sale agreements obtained in 1998 were \$4,685 in 1999 and \$4,627 in 1998.

During 1997, one wastewater and three water system acquisitions were completed by PSW. The total purchase price for the systems acquired in 1997 was \$1,226. Operating revenues included in the consolidated financial statements related to the systems acquired in 1997 were \$363 in 1999, \$367 in 1998 and \$175 in 1997.

Disposition

In April 1998, CWC's New Hampshire subsidiary sold its utility assets to the Town of Hudson under the New Hampshire condemnation statute for \$33,728, net of certain closing costs. The sale generated a gain of \$6,680 (\$3,903 net of taxes, or \$0.10 per share), and was recorded in the second quarter of 1998. This system had approximately 8,200 customers and operating revenues of \$1,600 in 1998 prior to the sale and \$6,500 in 1997.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Property, Plant and Equipment

	December 31,	
	----- 1999	1998 -----
Utility plant and equipment	\$ 1,340,361	\$ 1,213,330
Utility construction work in progress	49,271	31,327
Non-utility plant and equipment	3,395	3,964
	-----	-----
Total property, plant and equipment	\$ 1,393,027	\$ 1,248,621
	=====	=====

Depreciation is computed based on estimated useful lives of 2 to 110 years for utility plant and 3 to 10 years for both utility transportation and mechanical equipment and all non-utility plant, office equipment and laboratory equipment.

Accounts Receivable

	December 31,	
	1999	1998
Billed water revenue	\$ 23,953	\$ 21,666
Unbilled water revenue	20,747	19,398
Other	1,007	1,140
	45,707	42,204
Less allowance for doubtful accounts	1,308	1,436
Net accounts receivable	\$ 44,399	\$ 40,768

The Company's customers are located in the following states: 66% in Pennsylvania, 14% in Ohio, 11% in Illinois, 6% in New Jersey and 3% in Maine. PSW's customers are located in southeastern Pennsylvania and accounted for 58% of the customers served. No single customer accounted for more than one percent of the Company's operating revenues.

Regulatory Asset

The regulatory asset represents costs that are excluded from the Company's rate base but are expected to be fully recovered in future rates. The two components of this asset are deferred income taxes and postretirement benefits other than pensions. Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain 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. The portion of the asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

	December 31,	
	1999	1998
Income taxes	\$ 56,467	\$ 55,437
Postretirement benefits other than pensions	1,820	2,260
	\$ 58,287	\$ 57,697

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Income Taxes

Total income tax expense is allocated as follows:

	Years Ended December 31,		
	1999	1998	1997
Income from continuing operations	\$ 26,531	\$ 30,118	\$ 22,432

Common stockholders' equity related to stock option activity which reduces taxable income	(205)	(402)	(401)
Discontinued operations	--	--	(1,455)
	-----	-----	-----
	\$ 26,326	\$ 29,716	\$ 20,576
	=====	=====	=====

Income tax expense attributable to income from continuing operations consists of:

	Years Ended December 31,		
	1999	1998	1997
Current:			
Federal	\$ 15,233	\$ 14,837	\$ 13,480
State	3,695	5,583	3,087
	-----	-----	-----
	18,928	20,420	16,567
Deferred:			
Federal	6,862	8,453	5,086
State	741	1,245	779
	-----	-----	-----
	7,603	9,698	5,865
Total tax expense	-----	-----	-----
	\$ 26,531	\$ 30,118	\$ 22,432
	=====	=====	=====

The significant components of deferred income tax expense are as follows:

	Years Ended December 31,		
	1999	1998	1997
Excess of tax over financial statement depreciation	\$ 5,377	\$ 10,325	\$ 6,488
Amortization of deferred investment tax credits	(216)	(660)	(290)
Current year investment tax credits deferred	118	20	35
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation	2,123	1,762	786
Pension, deferred compensation and other postretirement benefits	(58)	(752)	(184)
Customers' advances for construction, net	806	321	773
Other, net	(547)	(1,318)	(1,743)
	-----	-----	-----
Total deferred income tax expense	\$ 7,603	\$ 9,698	\$ 5,865
	=====	=====	=====

The statutory Federal tax rate is 35% and the state corporate net income tax rates range from 7.18% to 11.50% for all years presented.

the statutory Federal income tax rate to income from continuing operations before Federal tax and the actual Federal tax expense are as follows:

	Years Ended December 31,		
	1999	1998	1997
Computed Federal tax expense at statutory rate	\$ 20,390	\$ 23,839	\$ 18,753
Increase in tax expense for depreciation expense to be recovered in future rates	387	1,091	162
Merger transaction costs	2,017	-	-
Charitable contribution	(479)	-	-
Gain on sale of land	83	-	-
Amortization of deferred investment tax credits	(279)	(658)	(292)
Prior year rate reductions	(313)	(655)	(147)
Preferred stock dividend	32	147	272
Difference in statutory rate	-	(240)	(186)
Other, net	257	(234)	4
Actual Federal tax expense	\$ 22,095	\$ 23,290	\$ 18,566

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	1999	1998
Deferred tax assets:		
Customers' advances for construction	\$ 19,896	\$ 21,527
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	4,952	3,244
Alternative minimum tax	1,464	1,464
Other	292	187
Total gross deferred tax assets	26,604	26,422
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	129,083	122,922
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	24,793	22,236
Deferred investment tax credit	7,823	8,073
Unrealized gain on marketable securities	1,433	-
Total gross deferred tax liabilities	163,132	153,231
Net deferred tax liability	\$136,528	\$ 126,809

The Company made income tax payments of \$20,313, \$15,746 and \$14,131 in 1999, 1998 and 1997, respectively. The Company's Federal income tax returns for all years through 1995 have been closed.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Commitments

PSW maintains agreements with the Chester Water Authority and the Bucks County Water and Sewer Authority 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 2017. As a result of the December 1999 Bensalem acquisition, the estimated annual commitments related to such purchases will increase to approximately \$5,338 through 2004. PSW purchased approximately \$3,172, \$3,012 and \$2,978 of water under these agreements during the years ended December 31, 1999, 1998 and 1997, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. During the next five years, \$2,556 of future minimum lease payments are due: \$1,129 in 2000, \$853 in 2001, \$378 in 2002 and \$186 in 2003 and \$10 in 2004. PSW leases parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The operating lease is noncancelable, expires in 2045 and contains certain renewal provisions. The lease is subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, \$292 of lease payments for land, subject to the aforesaid adjustment, are due.

Rent expense was \$1,894, \$2,270 and \$2,166 for the years ended December 31, 1999, 1998 and 1997, respectively.

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 1999 and 1998. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW and CWC to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's and CWC's stock. As of December 31, 1999, approximately \$146,000 of PSW's and \$59,000 of CWC's retained earnings were free of these restrictions. Certain supplemental indentures also prohibit PSW and CWC from making loans to or purchasing the stock of the Company.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. Excluding amounts due under the revolving credit agreements, the Company's future sinking fund payments and debt maturities are as follows:

Interest Rate Range	2000	2001	2002	2003	2004	Thereafter
0.00% to 2.49%	\$ 84	\$ 70	\$ 83	\$ 84	\$ 75	\$ 462
2.50% to 4.99%	10	10	10	10	10	774
5.00% to 5.49%	-	-	-	-	-	2,200
5.50% to 5.99%	400	400	400	10,000	10,000	10,345
6.00% to 6.49%	-	-	10,000	-	15,000	102,210
6.50% to 6.99%	-	-	-	10,400	400	44,400
7.00% to 7.49%	2,000	2,000	2,000	12,000	12,000	8,000
7.50% to 7.99%	-	-	-	-	-	23,000
8.00% to 8.49%	-	-	-	-	-	16,500
8.50% to 8.99%	3	-	-	-	-	9,000
9.00% to 9.49%	137	142	548	554	561	53,244

9.50% to 9.99%	360	1,155	1,154	1,155	1,154	46,242
10.00% to 10.55%	-	-	-	-	-	6,000
Total	\$ 2,994	\$ 3,777	\$ 14,195	\$ 34,203	\$ 39,200	\$ 322,377

In December 1999, PSW established a five-year \$300,000 medium-term note program providing for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. This program replaced a similar program that expired in June 1999. The notes issued under this program are secured by the Thirty-Third Supplement to the trust indenture relating to PSW's First Mortgage Bonds. During 1999, First Mortgage Bond issuances through these programs were as follows: \$10,000 in January 1999, 5.85% Series due 2004; and \$15,000 in April 1999, 6.00% Series due 2004. In January 1998, PSW issued First Mortgage Bonds through the program as follows: \$10,000 6.14% Series due 2008 and \$10,000 5.8% Series due 2003. In January 2000, PSW issued First Mortgage Bonds through the program of \$15,000 7.40% Series due 2005. The proceeds from these issuances were used to fund acquisitions, to reduce the balance of PSW's revolving credit facility and for PSW's ongoing capital program.

In June 1999, CWC's Maine subsidiary issued a First Mortgage Bond of \$2,200 5.05% Series due 2024. In August 1999, CWC's Maine subsidiary issued a First Mortgage Bond of \$824 2.68% Series due 2019. Proceeds from these issues were used to reduce the balance of its short-term debt. In October 1999, PSW issued \$25,000 in First Mortgage Bonds 6.00% Series due 2029 as security for an equal amount of Bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds are restricted to funding the costs of certain capital projects.

In April 1998, CWC's New Hampshire subsidiary sold its utility assets and used the proceeds to retire \$6,000 of First Mortgage Bonds 8.00% Series due 2004, \$2,000 of First Mortgage Bonds 10.55% Series due 2007, \$2,000 of First Mortgage Bonds 10.54% Series due 2009 and \$2,000 of First Mortgage Bonds 9.96% Series due 2009. During 1998, CWC's Ohio subsidiary retired \$1,215 of First Mortgage Bonds 8.75% Series due 2003.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

In December 1999, PSW replaced its expiring revolving credit facility with a new \$50,000 revolving credit agreement due December 2000 with three banks. As of December 31, 1999 and 1998, funds borrowed under the PSW revolving credit agreements of \$50,000 and \$38,935, respectively, have been classified as loans payable. CWC has a \$20,000 revolving credit facility, which expires in June 2000, and has been classified as current portion of long-term debt. Prior to their expiration in June 1999, CWC had other revolving credit facilities available. Interest under these facilities 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. These agreements restrict the total amount of short-term borrowings of PSW and CWC. A commitment fee ranging from 1/4 to 1/10 of 1% is charged on the unused portion of the revolving credit agreements. The average cost of borrowing under these facilities was 5.6% and 6.0%, and the average borrowing was \$47,037 and \$40,701, during 1999 and 1998, respectively. The maximum amount outstanding at the end of any one month was \$59,600 in 1999 and \$52,875 in 1998.

At December 31, 1999 and 1998, the Company had combined short-term lines of credit of \$116,000 and \$105,300, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was \$36,809 and \$21,684 during 1999 and 1998, respectively. The maximum amount outstanding at the end of any one month was \$53,069 in 1999 and \$27,990 in 1998. 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 1999 and 1998 was 6.0% and 6.5%, respectively.

The total amount of interest paid on all borrowings, net of amounts capitalized, was \$31,036, \$30,711 and \$31,970 in 1999, 1998 and 1997, respectively. The pro forma weighted cost of long-term debt at both December 31, 1999 and 1998 was 7.4%.

Preferred Stock of Subsidiaries

The Company's subsidiaries have the following preferred stock (\$100 par value) as of December 31, 1999:

	Cumulative Dividend Rate	Current Call Price Per Share	Shares Authorized	Shares Outstanding
Consumers Pennsylvania - Shenango Valley Division	5.00%	\$ 110	10,000	9,925
Consumers Illinois Water Company	5.50%	107	5,000	3,575
Consumers Maine Water Company	5.00%	105	4,000	2,739
PSW	-	None	1,000,000	-

PSW is authorized to issue preferred stock with mandatory redemption requirements, with stated par value, in one or more series. In 1991, PSW issued 100,000 shares of 8.66% Series 1 Cumulative Preferred Stock, at par value of \$100 per share in a private placement. The remaining shares of this issue were called by PSW and retired in 1998.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt as of December 31, 1999 is \$425,946 and \$415,653, respectively. 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.

The Company's customers' advances for construction and related tax deposits have a carrying value of \$59,494 at December 31, 1999. Their relative fair values cannot be accurately estimated since 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 2020 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.

Stockholders' Equity

At December 31, 1999, the Company had 1,770,819 shares of Series Preferred Stock with a \$1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated 32,200 shares as Series B Preferred Stock, \$1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. In 1996, the Company issued all of the 6.05% Series B Preferred Stock in connection with an acquisition. The Series B Preferred Stock is recorded on the balance sheet at its liquidation value of \$100 per share. Dividends on the Series B Preferred Stock are cumulative and payable quarterly. PSC may not pay dividends on common stock unless provision has been made for payment of the preferred dividends. Under the provisions of this issue, the holders may redeem the shares, in whole or in part, at the liquidation value beginning December 1, 1998 and the Company may redeem up to 20% of this issue each year beginning December 1, 2001 and, at the holders' option, this redemption may be made in cash or through the issuance of debt with a five year maturity at an interest rate of 6.05%. As of December 31, 1999, all dividends have been provided for. In January 1999, 14,600 shares were redeemed in cash at the liquidation value of \$100 per share.

At December 31, 1999, the Company had 100,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding at December 31, 1999, 1998 and 1997 were 41,012,606, 40,702,311, and 39,111,642 respectively. Treasury shares held at December 31, 1999, 1998 and 1997 were 615,038, 533,292, and 376,510 respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The following table summarizes the activity of common stockholders' equity:

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1996	\$ 16,013	\$ (3,647)	\$ 200,629	\$ 70,869	\$ -	\$ 283,864
Net income	-	-	-	32,278	-	32,278
Dividends	-	-	-	(26,877)	-	(26,877)
Stock split	3,276	-	(3,276)	-	-	-
Sale of stock	346	506	11,029	-	-	11,881
Repurchase of stock	-	(2,829)	-	-	-	(2,829)
Equity Compensation Plan	1	-	50	-	-	51
Exercise of stock options	108	-	2,750	-	-	2,858
Balance at December 31, 1997	19,744	(5,970)	211,182	76,270	-	301,226
Net income	-	-	-	44,820	-	44,820
Dividends	-	-	-	(29,407)	-	(29,407)
Sale of stock	761	293	30,495	-	-	31,549
Repurchase of stock	-	(3,801)	-	-	-	(3,801)
Equity Compensation Plan	12	-	491	-	-	503
Exercise of stock options	100	-	2,289	-	-	2,389
Balance at December 31, 1998	20,617	(9,478)	244,457	91,683	-	347,279
Net income	-	-	-	36,275	-	36,275
Other comprehensive income	-	-	-	-	2,020	2,020
Dividends	-	-	-	(26,425)	-	(26,425)
Sale of stock	114	354	4,807	-	-	5,275
Repurchase of stock	-	(2,146)	-	-	-	(2,146)
Equity Compensation Plan	2	-	98	-	-	100
Exercise of stock options	81	-	2,078	-	-	2,159
Balance at December 31, 1999	\$ 20,814	\$ (11,270)	\$ 251,440	\$ 101,533	\$ 2,020	\$ 364,537

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income for unrealized gains on securities is reported in the Stockholders' Equity section of the Consolidated Balance Sheets and the related other comprehensive income is reported in the Consolidated Statements of Income and Comprehensive Income.

In December 1999, the Company filed a shelf registration statement with the Securities and Exchange Commission for the offering and sale of up to approximately \$42,000 of common stock and \$50,000 of preferred stock, all of which was unused. The Company expects to offer from time to time, these shares for acquisitions. The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other funds.

In February 1998, the Company issued 1,250,000 shares of common stock through a public offering, providing net proceeds of \$25,840 which were used to repay short term debt and to make a \$19,000 equity contribution to PSW. PSW used the contribution from the Company to reduce the balance of its revolving credit loan.

In December 1997, the Company adopted a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that replaced the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Under the Plan, reinvested dividends continue to be used to purchase original issue 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 throughout the year, instead of during limited subscription periods, at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. The plans that were replaced sold original issue shares exclusively. During 1999 and 1998, under the dividend reinvestment portion of the Plan, 229,476 and 204,316 original issue shares of common stock were sold providing the Company with proceeds of \$5,044 and \$4,197, respectively. During 1997, under the former plans, 792,717 original issue shares of common stock were sold providing the Company with \$11,242 of additional capital, after expenses.

The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. During 1999, 1998 and 1997, 81,400, 151,406, and 152,000 shares have been purchased at a net cost of \$1,771, \$3,333, and \$2,284, respectively. As of December 31, 1999, 395,339 shares remain available for purchase by the Company.

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 options is included in the computation of Diluted net income per share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per share:

	Years ended December 31,		
	1999	1998	1997
Average common shares outstanding during the period for Basic computation	40,864	40,362	38,650
Dilutive effect of employee stock options	441	492	368
Average common shares outstanding during the period for Diluted computation	41,305	40,854	39,018

Equity per common share was \$8.89 and \$8.53 at December 31, 1999 and

1998, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of \$.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

Employee Stock and Incentive Plans

Under the 1994 Equity Compensation Plan ("1994 Plan"), as amended and restated effective March 3, 1998, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In November 1998, the Shareholders authorized an increase to the number of shares from 1,900,000 shares to 2,900,000 shares of common stock for issuance under the 1994 Plan. The maximum number of shares that may be subject to grants under the 1994 Plan to any one individual in any one year is 100,000. Awards under this plan are made by the Board of Directors or a committee of the Board.

Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments ranging from 20% to 50% annually, starting one year from the date of the grant and expire either 5 or 10 years from the date of the grant.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The following table summarizes stock option transactions for the two plans:

As of or For the Years Ended December 31,

-----	-----	-----
1999	1998	1997

	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	1,133,907	\$ 13.75	1,107,614	\$ 11.03	1,202,541	\$ 9.53
Granted	302,500	21.43	263,500	22.13	263,333	15.14
Terminated	(7,557)	20.50	(36,710)	12.54	(62,904)	11.43
Exercised	(145,526)	11.17	(200,497)	9.94	(295,356)	8.48
Outstanding, end of year	1,283,324	\$ 15.81	1,133,907	\$ 13.75	1,107,614	\$11.03
Exercisable, end of year	724,832	\$ 12.05	607,535	\$ 10.04	547,858	\$ 9.44

Options exercised during 1999 ranged in price from \$8.56 per share to \$22.13 per share. At December 31, 1999, 1,299,326 options under the 1994 Plan were still available for grant. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 1999:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$6.59 - 11.99	480,390	4.6	\$ 9.33	480,390	\$ 9.33
\$12.00 -16.99	244,938	6.9	14.97	159,946	14.89
\$17.00 -22.13	557,996	8.7	21.75	84,496	22.13
	1,283,324	6.8	\$ 15.81	724,832	\$ 12.05

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Under SFAS No. 123, "Accounting for Stock-Based Compensation", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income available to common stock and Basic and Diluted net income per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	1999	1998	1997
Net income available to common stock:			
As reported	\$ 36,275	\$ 44,820	\$ 32,278
Proforma	35,398	44,277	31,989
Basic net income per share:			
As reported	\$ 0.89	\$ 1.11	\$ 0.84
Proforma	0.87	1.10	0.83

Diluted net income per share:

As reported	\$ 0.88	\$ 1.10	\$ 0.83
Proforma	0.86	1.08	0.82

The per share weighted-average fair value at the date of grant for stock options granted during 1999, 1998 and 1997 was \$5.35, \$5.32, and \$2.90 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1999	1998	1997
Expected life (years)	10	10	10
Interest rate	5.4%	5.6%	6.6%
Volatility	20.9%	16.9%	13.8%
Dividend yield	3.2%	2.9%	4.0%

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. During 1999, 1998 and 1997, 4,400, 23,600 and 3,600 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans that cover its full-time employees. 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 these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for all eligible retirees and a life insurance policy for eligible union retirees. The Company funds its gross PBOP cost through various trust accounts.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The Company's pension expense includes the following components:

	Years Ended December 31,		
	1999	1998	1997
Benefits earned during the year	\$ 3,232	\$ 2,949	\$ 2,522
Interest cost on projected benefit obligation	7,214	6,771	6,327

Expected return on plan assets	(10,304)	(9,049)	(7,859)
Net amortization and deferral	(105)	(38)	(2)
Capitalized costs	(47)	(48)	(113)
Rate-regulated adjustment	430	(134)	(552)
Special termination benefits	716	56	-
	-----	-----	-----
Net pension cost	\$ 1,136	\$ 507	\$ 323
	=====	=====	=====

The rate-regulated adjustment set forth above is required in order to reflect pension expense for the Company in accordance with the method used in establishing water rates. During 1999 and 1998, the Company instituted early retirement and restructuring programs. These actions resulted in additional termination benefits of \$716 in 1999 and \$56 in 1998.

The Company's costs for postretirement benefits other than pensions includes the following components:

	Years Ended December 31,		
	1999	1998	1997
	-----	-----	-----
Benefits earned during the year	\$ 645	\$ 575	\$ 485
Interest cost	1,249	1,229	1,173
Expected return on plan assets	(699)	(475)	(272)
Net amortization and deferral	628	643	638
Special termination benefits	209	-	-
Amortization of regulatory asset	208	257	161
	-----	-----	-----
Gross PBOP cost	2,240	2,229	2,185
Capitalized costs	(464)	(454)	(435)
	-----	-----	-----
Net PBOP cost	\$ 1,776	\$ 1,775	\$ 1,750
	=====	=====	=====

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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 Postretirement Benefits	
	1999	1998	1999	1998
	-----	-----	-----	-----
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 106,047	\$ 93,373	\$ 19,015	\$ 16,207
Service cost	3,123	2,949	649	575
Interest cost	7,202	6,771	1,252	1,229
Plan amendments	-	804	-	928
Special termination benefits	689	56	28	-
Change in measurement date	2,024	-	181	-

Actuarial loss (gain)	(15,747)	6,843	(3,258)	612
Benefits paid	(5,110)	(4,749)	(575)	(536)
	-----	-----	-----	-----
Benefit obligation at December 31,	98,228	106,047	17,292	19,015
	-----	-----	-----	-----
Change in plan assets:				
Fair value of plan assets at January 1,	116,848	102,773	8,003	5,437
Actual return on plan assets	13,455	18,715	1,196	1,077
Employer contributions	39	109	2,162	2,025
Change in measurement date	3,135	-	311	-
Benefits paid	(5,110)	(4,749)	(575)	(536)
	-----	-----	-----	-----
Fair value of plan assets at December 31,	128,367	116,848	11,097	8,003
	-----	-----	-----	-----
Funded status of plan:				
Funded status at December 31,	(30,139)	(10,801)	6,195	11,012
Contributions for fourth quarter	-	-	-	(357)
Unrecognized actuarial gain	37,755	18,306	8,508	5,025
Unrecognized prior service cost	(3,443)	(3,874)	819	876
Rate-regulated adjustment	(1,366)	(1,803)	-	-
Unrecognized net transition obligation	1,876	1,967	(11,750)	(12,654)
	-----	-----	-----	-----
Accrued benefit costs	\$ 4,683	\$ 3,795	\$ 3,772	\$ 3,902
	=====	=====	=====	=====
Weighted-average assumptions				
as of December 31,				
Discount rate	7.75%	6.75-7.00%	7.75%	6.75-7.00%
Expected return on plan assets	9.00%	9.00%	6.00-9.00%	6.00-9.00%
Rate of compensation increase	4.50-5.50%	4.50-5.50%	4.50%	4.50%

The CWC plans were measured as of September 30, 1998 in the above table. This change in accounting method establishes December 31 as the measurement date for all PSC plans and does not result in a material impact to the plan assets or benefit obligation.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The accumulated benefit obligation is in excess of plan assets for certain non-qualified plans. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans were \$2,886, \$1,898 and \$0, and \$3,685, \$1,758 and \$0, respectively as of December 31, 1999 and 1998.

The assumed medical inflation rates under the PSC plans are 6.0%, reducing to 4.5% in 2002 for retirees under the age of 65 and 15.0%, reducing to 4.5% by 2006 for retirees 65 years of age and over. The assumed medical inflation rates under the CWC plans are 5.5%, reducing by 0.5% annually until 2001 and remain at 5.0% thereafter. The effect of a 1% increase in the assumed medical inflation rates would be to increase the accumulated postretirement benefit obligation as of December 31, 1999 and the 1999 PBOP costs by \$1,030 and \$114, respectively. The effect of a 1% decrease in the assumed medical inflation rates would be to decrease the accumulated postretirement benefit obligation as of December 31, 1999 and the 1999 PBOP costs by \$1,640 and \$236, respectively. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

Water Rates

In October 1999, PSW, in conjunction with CWC's Pennsylvania subsidiaries, filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a \$28,000 or 15.5% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by July 2000. In October 1997, the PAPUC approved a rate settlement reached between PSW and the parties actively litigating the rate

application PSW filed in April 1997. The settlement was designed to increase PSW's annual revenue by \$9,300 or 7.3% over the level in effect at the time of the filing. The rates in effect at the time of the filing included a 1% or \$1,300 Distribution System Improvement Charge ("DSIC"). Consequently, the settlement resulted in a total base rate increase of \$10,600 or 8.3%.

The CWC operating subsidiaries were allowed annual rate increases of \$390 for 1999, \$3,334 for 1998 and \$2,769 for 1997, represented by two, five, and four rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$308, \$1,969, and \$489 in 1999, 1998 and 1997, respectively.

The DSIC enables water utilities in Pennsylvania to add a surcharge to customer bills reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective or when PSW's pro forma earnings exceed a PUC benchmark. The maximum DSIC that can be in effect at any time is 5%. The DSIC in the first quarter of 2000 has been set at 5% and is expected to continue at 5% until new base rates become effective. The DSIC provided revenues in 1999, 1998 and 1997 of \$4,140, \$229 and \$1,104, respectively.

In addition to its base rates and DSIC, PSW and CWC's Pennsylvania subsidiaries have utilized a surcharge or credit on their bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated into base rates. Various surcharge rates provided operating revenues of \$1,306 in 1999, and rate credits reduced operating revenues in 1998 by \$117. There were no surcharges or credits during 1997.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Discontinued Operations

The net reserve of discontinued operations is comprised of two separate operations as follows:

	December 31,	
	1999	1998
Net reserve (assets) of CWC's CAT operations	\$ 113	\$ (418)
Net reserve of PSC's nonregulated businesses	1,008	1,008
Net reserve of discontinued operations	\$ 1,121	\$ 590

In April 1997, the Board of Directors of CWC announced its intention to dispose of its technical services company, Consumers Applied Technologies, Inc. ("CAT"). A reserve for estimated losses and certain future costs was established in 1997 of \$2,350, net of tax benefits of \$1,211. CWC had been unable to sell CAT as an on-going business and is proceeding with its liquidation. CAT's operations were substantially shutdown during 1997. The operating results of CAT prior to the date of discontinuance are shown under discontinued operations on the accompanying consolidated statements of income and comprehensive income. Operating revenues for the discontinued operations for 1998 and 1997 were \$393

and \$4,573, respectively. The net reserve (or assets) of CWC's discontinued operations consist primarily of the reserve for estimated future costs associated with CAT, less accounts receivable. The change in the net reserve during 1999 was due to the collections of accounts receivable from former customers.

The Board of Directors of PSC had authorized the sale of substantially all of the Company's non-regulated businesses and the last of these businesses was sold in 1993. At the time the Board of Directors of PSC authorized the sale of these businesses, the Company established reserves for estimated losses and certain future costs. These reserves were recorded on the balance sheet net of related income tax benefits. Management continues to assess the asserted and unasserted legal claims related to these discontinued operations, and the reserves will be adjusted when certain contingencies are reduced or an assessment indicates that a reserve is no longer necessary.

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	First	Second	Third	Fourth	Total Year
1999					
Operating revenues	\$ 58,597	\$ 66,165	\$ 69,527	\$ 63,037	\$ 257,326
Operations and maintenance expense	22,725	24,203	24,645	27,185	98,758
Net income available to common stock	316	12,033	14,332	9,594	36,275
Basic net income per common share	0.01	0.29	0.35	0.24	0.89
Diluted net income per common share	0.01	0.29	0.35	0.23	0.88
Dividends declared and paid per common share	0.17	0.17	0.18	0.18	0.70
Price range of common stock					
- high	29.75	25.75	25.31	24.19	29.75
- low	19.75	21.31	21.13	20.19	19.75
1998					
Operating revenues	\$ 57,933	\$ 61,740	\$ 68,991	\$ 62,107	\$ 250,771
Operations and maintenance expense	23,604	24,005	25,216	27,314	100,139
Net income available to common stock	7,852	14,577	13,787	8,604	44,820
Basic net income per common share	0.20	0.36	0.34	0.21	1.11
Diluted net income per common share	0.19	0.36	0.34	0.21	1.10
Dividend paid per common share	0.1625	0.1625	0.1700	0.1700	0.6650
Dividend declared per common share	-	0.1625	0.1700	0.1700	0.5025
Price range of common stock					
- high	25.75	22.56	28.19	30.06	30.06
- low	19.56	18.88	20.50	23.00	18.88

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape.

Dividends paid and declared per common share represents PSC's historical dividends. The cash dividend paid in March 1998 of \$0.1625 was declared in December 1997.

Net income available to common stock and net income per common share for the first quarter of 1999 includes net charges of \$6,134 (\$6,334 pre-tax), or \$0.15 per share, for the Consumers Water Company merger transaction costs and a charge for related restructuring costs of \$2,462 (\$3,787 pre-tax), or \$0.06 per share.

Net income available to common stock and net income per common share for the second quarter of 1998 includes a net gain of \$3,903 (\$6,680 pre-tax), or \$0.10 per share, on the sale of Consumers Water Company's New Hampshire system pursuant to the State's condemnation statute.

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Summary of Selected Financial Data

Philadelphia Suburban Corporation and Subsidiaries

(in thousands of dollars, except per share amounts)

Years ended December 31,	1999	1998	1997	1996	1995
PER COMMON SHARE:					
Income from continuing operations (a)					
Basic	\$ 0.89	\$ 1.11	\$ 0.91	\$ 0.78	\$ 0.83
Diluted	0.88	1.10	0.90	0.77	0.83
Net income (a)					
Basic	0.89	1.11	0.84	0.72	0.83
Diluted	0.88	1.10	0.83	0.71	0.82
Cash dividends paid (b)	0.70	0.67	0.62	0.59	0.57
Cash dividends declared (b) (c)	0.70	0.50	0.79	0.59	0.57
Return on average stockholders' equity (a) (d)	10.1%	13.6%	11.8%	10.5%	11.6%
Book value at year end	\$ 8.89	\$ 8.53	\$ 7.70	\$ 7.44	\$ 7.21
Market value at year end	20.69	29.56	22.08	14.91	10.38
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues (d)	\$ 257,326	\$ 250,771	\$ 235,852	\$ 215,971	\$208,100
Depreciation and amortization (d)	31,903	29,464	27,977	25,277	21,825
Interest expense (d) (e)	31,796	30,785	32,317	29,112	27,492
Income before income taxes (d)	62,915	75,133	57,642	48,554	49,673
Provision for income taxes (d)	26,531	30,118	22,432	19,350	19,786
Income from continuing operations (a)	36,384	45,015	35,210	29,204	29,887
Net income available to common stock (a)	36,275	44,820	32,278	26,918	29,647
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$1,280,805	\$1,156,733	\$1,083,162	\$1,038,926	\$948,039
Property, plant and equipment, net	1,135,364	1,016,194	952,626	907,739	817,374
Stockholders' equity	368,901	353,088	306,816	289,436	266,399
Preferred stock with mandatory redemption (f)	-	-	4,214	5,643	7,143
Long-term debt (f)	425,946	377,355	407,526	403,524	351,853
Total debt	529,015	440,905	436,756	426,438	368,939
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	\$74,103	\$ 84,362	\$ 71,252	\$ 56,274	\$ 53,217
Capital additions (d) (g)	96,383	87,973	67,378	66,130	73,369
Dividends on common stock	29,217	29,349	26,752	25,137	23,452
Number of metered customers	548,937	525,959	519,160	512,150	487,730
Number of shareholders of common stock	21,187	20,553	19,902	19,905	18,514
Common shares outstanding (000)	41,013	40,702	39,112	38,162	36,602
Employees (full-time)	945	973	979	1,016	1,027

- (a) The 1999 amounts include a net charge of \$8,596 (\$10,121 pre-tax) or \$0.21 per share for the Consumers Water Company merger transaction costs and related restructuring costs. The 1998 amounts include a net gain of \$3,903 (\$6,680 pre-tax) or \$0.10 per share on the sale of Consumers Water Company's New Hampshire system pursuant to the State's condemnation statute.
- (b) Amount represents PSC's historical dividends per common share.
- (c) The cash dividend of \$0.1625, paid in March 1998, was declared in December 1997.
- (d) Continuing operations only.
- (e) Includes dividends on preferred stock of subsidiary and minority interest; net of allowance for funds used during construction.
- (f) Includes current portion.
- (g) Excludes payments for acquired water systems of \$39,164 in 1999, \$24,498 in 1998, \$1,226 in 1997, \$44,110 in 1996, and \$27,651 in 1995.

Exhibit 21
(unaudited)

The following table lists all of the subsidiaries of Philadelphia Suburban Corporation at December 31, 1999:

Philadelphia Suburban Water Company (Pa.)
Utility & Municipal Services, Inc. (Pa.)
PSC Services, Inc. (Del.)
Suburban Wastewater Company (Pa.)
Suburban Environmental Services, Inc. (Pa.)
Little Washington Wastewater Company (Pa.)
Drexel Hill Corporation (Pa.)
Pennsylvania Suburban Water Company (Pa.)
Consumers Water Company (Pa.)
Consumers Ohio Water Company (Ohio)
Consumers Illinois Water Company (Illinois)
Consumers New Jersey Water Company (New Jersey)
Consumers Maine Water Company (Maine)
Consumers Pennsylvania Water Company - Shenango Valley Division (Pa.)
Consumers Pennsylvania Water Company - Roaring Creek Division (Pa.)
Consumers Pennsylvania Water Company - Susquehanna Division (Pa.)
Masury Water Company (Ohio)

CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors
Philadelphia Suburban Corporation:

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Equity Compensation Plan No. 333-70859), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option Plan No. 33-27032), (1982 Stock Option Plan No. 2-81757); on Form S-3 (Dividend Reinvestment and Direct Stock Purchase Plan No. 333-42275), (Customer Stock Purchase Plan No. 33-64301); and on Form S-4 (No. 333-93243) of Philadelphia Suburban Corporation of our report dated January 31, 2000, relating to the consolidated balance sheets and the statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of income and comprehensive income, and cash flow for each of the years in the three-year period ended December 31, 1999, which report is incorporated by reference in the December 31, 1999 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG LLP

Philadelphia, Pennsylvania
March 28, 2000

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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at December 31, 1999, and the consolidated statements of income and comprehensive income and the consolidated statements of cash flow for the year ended December 31, 1999, and is qualified in its entirety by reference to such financial statements.

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