

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 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

Indicate by check mark whether the registrant (1) 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 such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1999

40,962,206

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars, except per share amounts)

	September 30, 1999	December 31, 1998
	----- (Unaudited)	----- (Audited)
Assets		
Property, plant and equipment, at cost	\$ 1,315,220	\$ 1,248,621
Less accumulated depreciation	252,468	232,427

Net property, plant and equipment	1,062,752	1,016,194

Current assets:		
Cash and cash equivalents	6,454	8,247
Accounts receivable and unbilled revenues, net	41,903	40,768
Inventory, materials and supplies	4,368	3,857
Prepayments and other current assets	2,800	7,026

Total current assets	55,525	59,898

Regulatory assets	57,525	57,697
Deferred charges and other assets, net	26,199	22,944

	\$ 1,202,001	\$ 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, outstanding 40,962,206 and 40,702,311 in 1999 and 1998	20,780	20,617
Capital in excess of par value	249,890	244,457
Retained earnings	99,324	91,683
Minority interest	2,609	2,589
Treasury stock, 596,766 and 533,292 shares in 1999 and 1998	(10,891)	(9,478)
Accumulated other comprehensive income	1,068	-

Total stockholders' equity	364,540	353,088

Long-term debt, excluding current portion	411,514	413,309
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	33,437	2,981
Loans payable	39,280	24,615
Accounts payable	10,292	25,248
Accrued interest	7,847	8,406
Accrued taxes	12,086	14,382
Other accrued liabilities	18,752	20,462

Total current liabilities	121,694	96,094

Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	132,919	126,809
Customers' advances for construction	56,866	57,781
Other	9,322	8,735

Total deferred credits and other liabilities	199,107	193,325

Contributions in aid of construction	105,146	100,917

	\$ 1,202,001	\$ 1,156,733
	=====	

See notes to consolidated financial statements on page 6 of this report.

2

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Nine Months Ended September 30,	
	1999	1998

Operating revenues	\$ 194,091	\$ 188,664
Costs and expenses:		
Operations and maintenance	71,573	72,825
Depreciation	22,792	20,341
Amortization	989	1,737
Taxes other than income taxes	16,803	16,941
Restructuring costs	3,787	-

	115,944	111,844

Operating income	78,147	76,820
Other expense (income):		
Interest expense, net	24,968	23,728
Dividends on preferred stock of subsidiary and minority interest	76	114
Allowance for funds used during construction	(1,369)	(861)
Merger transaction costs	6,334	-
Gains on sales of properties	(198)	(6,680)

Income before income taxes	48,336	60,519
Provision for income taxes	21,551	24,157

Net income	26,785	36,362
Dividends on preferred stock	104	146

Net income available to common stock	\$ 26,681	\$ 36,216
	=====	
Net income	\$ 26,785	\$ 36,362
Other comprehensive income:		
Unrealized gains on securities	1,643	-
Provision for income taxes on other comprehensive income	(575)	-

Comprehensive income	\$27,853	\$36,362
	=====	
Net income per common share:		
Basic	\$ 0.65	\$ 0.90
	=====	
Diluted	\$ 0.65	\$ 0.89
	=====	
Average common shares outstanding during the period:		
Basic	40,823	40,263
	=====	
Diluted	41,281	40,741
	=====	

See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended September 30,	
	1999	1998

Operating revenues	\$69,337	\$68,991
Costs and expenses:		
Operations and maintenance	24,645	25,216
Depreciation	7,765	6,932

Amortization	277	601
Taxes other than income taxes	5,591	5,871
	-----	-----
	38,278	38,620
	-----	-----
Operating income	31,059	30,371
Other expense (income):		
Interest expense, net	8,347	7,671
Dividends on preferred stock of subsidiary and minority interest	34	45
Allowance for funds used during construction	(512)	(309)
Gains on sales of properties	(190)	-
	-----	-----
Income before income taxes	23,380	22,964
Provision for income taxes	9,013	9,129
	-----	-----
Net income	14,367	13,835
Dividends on preferred stock	35	48
	-----	-----
Net income available to common stock	\$14,332	\$13,787
	=====	=====
Net income	\$14,367	\$13,835
Other comprehensive income:		
Unrealized gains on securities	1,643	-
Provision for income taxes on other comprehensive income	(575)	-
	-----	-----
Comprehensive income	\$15,435	\$13,835
	=====	=====
Net income per common share:		
Basic	\$ 0.35	\$ 0.34
	=====	=====
Diluted	\$ 0.35	\$ 0.34
	=====	=====
Average common shares outstanding during the period:		
Basic	40,898	40,563
	=====	=====
Diluted	41,333	41,077
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

4

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Nine Months Ended September 30,	
	-----	-----
	1999	1998
	-----	-----
Cash flows from operating activities:		
Net income	\$ 26,785	\$ 36,362
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	23,781	22,078
Deferred income taxes	5,576	7,637

Gains on sales of properties	(198)	(6,680)
Net decrease (increase) in receivables, inventory and prepayments	2,645	(2,366)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(14,753)	(4,819)
Net cash flows from discontinued operations	383	1,361
Other	2,533	(1,363)
Net cash flows from operating activities	46,752	52,210
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$1,369 and \$861	(67,723)	(57,867)
Acquisitions of water systems	(199)	(23,911)
Proceeds from dispositions of properties	237	33,728
Other	(6,280)	362
Net cash flows used in investing activities	(73,965)	(47,688)
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	3,604	3,434
Repayments of customers' advances	(2,125)	(1,876)
Net proceeds (repayments) of short-term debt	14,665	(9,500)
Proceeds from long-term debt	34,664	29,120
Repayments of long-term debt	(6,154)	(23,519)
Redemption of preferred stock	(1,460)	-
Redemption of preferred stock of subsidiary	-	(4,214)
Proceeds from issuing common stock	5,939	31,281
Repurchase of common stock	(1,756)	(3,334)
Dividends paid on preferred stock	(90)	(146)
Dividends paid on common stock	(21,832)	(21,898)
Other	(35)	(47)
Net cash flows from (used in) financing activities	25,420	(699)
Net increase (decrease) in cash and cash equivalents	(1,793)	3,823
Cash and cash equivalents at beginning of year	8,247	3,374
Cash and cash equivalents at end of period	\$ 6,454	\$ 7,197

See Merger with Consumers Water Company footnote for description of non-cash investing and financing activities.
See notes to consolidated financial statements on page 6 of this report.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands, except per share amounts)

	September 30, 1999	December 31, 1998
	(Unaudited)	(Audited)
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,760	\$ 3,220
Common stock, \$.50 par value	20,780	20,617
Capital in excess of par value	249,890	244,457
Retained earnings	99,324	91,683
Minority interest	2,609	2,589
Treasury stock	(10,891)	(9,478)
Accumulated other comprehensive income	1,068	-
Total stockholders' equity	364,540	353,088
Long-term debt:		
First Mortgage Bonds secured by utility plant:		

Interest Rate Range		
0.00% to 1.99%	903	949
2.00% 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%	102,210	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%	9,005	9,011
9.00% to 9.49%	53,776	53,776
9.50% to 9.99%	51,220	51,820
10.00% to 10.55%	6,000	6,000
	-----	-----
Total First Mortgage Bonds	390,383	365,412
Note payable to bank under revolving credit agreement, due January 2000	43,425	38,935
Notes payable to banks under revolving credit agreements, due June 2000	9,600	10,400
Installment note payable, 9%, due in equal annual payments through 2013	1,543	1,543
	-----	-----
Current portion of long-term debt	444,951	416,290
	33,437	2,981
	-----	-----
Long-term debt, excluding current portion	411,514	413,309
	-----	-----
Total capitalization	\$ 776,054	\$ 766,397
	=====	=====

See notes to consolidated financial statements on page 6 of this report.

6

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands of dollars, except per share amounts) (UNAUDITED)

Note 1 Basis of Presentation

On March 10, 1999, Philadelphia Suburban Corporation (the "Company" or "PSC") completed a merger with Consumers Water Company ("CWC"). See Note 2 - Merger with Consumers Water 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 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. Certain reclassifications were made to the historical financial statements of the two companies to conform presentations.

The accompanying consolidated balance sheet and statement of capitalization of PSC at September 30, 1999, the consolidated statements of income and comprehensive income for the nine months and quarter ended September 30, 1999 and 1998, and the consolidated statements of cash flow for the nine months ended September 30, 1999 and 1998 are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements, and therefore, should be read in conjunction with the PSC Annual Report on Form 10-K for the year ended December 31, 1998, Form 8-K filed on May 24, 1999 containing the Company's audited Supplemental Consolidated Financial Statements as of December 31, 1998 and 1997 and for each of the years in the three-year period ended December 31, 1998 and the Quarterly Report on Form 10-Q for the quarters ended March 31, 1999 and June 30, 1999.

Note 2 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 serves approximately 230,000 customers in service territories covering parts of Pennsylvania, Ohio, Illinois, New Jersey and Maine.

During the first quarter of 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 in the first quarter of 1999 restructuring costs of \$3,787 (\$2,462, after tax benefits of \$1,325) that includes severance and other costs associated with the closing of CWC's corporate office. As of March 31, 1999, \$1,647

7

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

of restructuring costs were accrued and during the second and third quarters of 1999, \$1,300 of these restructuring costs were paid with the balance anticipated to be paid over time. The merger transaction costs have been reported in Other expense and the restructuring costs have been reported as Costs and expenses in the Consolidated Statements of Income and Comprehensive Income.

8

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

Note 3 Acquisitions

In January 1999, the Pennsylvania Public Utility Commission ("PAPUC") approved the franchise application of the Company's largest subsidiary, Philadelphia Suburban Water Company ("PSW") to expand PSW's service territory in Cumru Township, Berks County. It is anticipated that new customers will result as the territory is developed over time.

In March 1999, one of CWC's Pennsylvania subsidiaries purchased the water system assets that the New Wilmington Municipal Authority and the Wilmington Borough owned jointly, for \$55 in cash. The service territory covers 33 square miles and is located in Wilmington Borough, Mercer County and Wilmington Borough, Lawrence County. The annual revenues of this system approximate \$165.

In March 1999, PSW's wastewater subsidiary acquired the assets of a wastewater system from a real estate developer and a township for \$162 in cash, payable in installments over four years. The service territory covers approximately a one-half square mile area in East Bradford Township, Chester County. The annual revenues of this system approximate \$40.

In July 1999, PSW entered into an agreement to purchase the water system assets of the East Marlborough Township water system for \$500 in cash. Located in Chester County, the system is contiguous to PSW's and has annual operating revenues of approximately \$70. In October 1999,

the PAPUC approved the transaction and closing is anticipated to occur by the end of 1999.

In August 1999, CWC's Ohio subsidiary acquired the water system assets of two apartment complexes in Jackson Township, Ohio for \$95 in cash. The annual revenues of this system, once fully developed, are projected to approximate \$100.

In August 1999, PSW entered into an agreement to purchase the water utility assets of Bensalem Township for approximately \$36,500. In October 1999, the PAPUC approved the transaction. Closing on the acquisition is anticipated to occur in December 1999. The Bensalem Township system covers a 20 square-mile service area in Bucks County, Pennsylvania. The increase in annual revenues resulting from this acquisition approximate \$4,100.

In August 1999, CWC's Illinois subsidiary entered into an agreement to purchase the water utility assets of the Village of Bradley in Kankakee County for \$975 in cash. The annual operating revenues of this system is \$190. This transaction is anticipated to close by the end of 1999.

The Company continues to actively explore other opportunities to expand its utility operations through acquisitions and otherwise.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

Note 4 Water Rates

PSW filed an application with the PAPUC on October 29, 1999 requesting a \$28 million 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 May 1999, a rate application was filed by CWC's Illinois subsidiary for one of its divisions. The amount of increased annual revenue requested is \$558 and a decision is anticipated during the first quarter of 2000. During the first quarter of 1999, CWC's operating subsidiaries settled one rate case and implemented received a rate increase granted under the terms of a prior year rate settlement in two CWC divisions resulting in an aggregate annual revenue increase of \$390.

Water utilities in Pennsylvania are permitted by the PAPUC to add a Distribution System Improvement Charge ("DSIC") to their water bills reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PAPUC rules require a utility to suspend the use of the DSIC in the quarter subsequent to a twelve-month period that the utility's adjusted return on equity exceeds a benchmark established by the PAPUC. The benchmark is established quarterly by the PAPUC staff based on recent economic data. Based on the adjusted return on equity for 1998 and the applicable benchmark, PSW's DSIC resumed in the second quarter of 1999 after having been suspended in the first quarter of 1999. PSW's DSIC in the second and third quarters of 1999 was 3.05% and 3.62% of base water rates, respectively. The amount of PSW's DSIC in the fourth quarter of 1999 has been set at 5.00% of base water rates, the maximum DSIC allowed. During the third and fourth quarters, two of CWC's Pennsylvania subsidiaries also reflect a DSIC on their water bills at rates less than 1%. The amount of the DSIC in the first quarter of 2000 is dependent on the adjusted return on equity of the individual Pennsylvania subsidiaries and the benchmark established by the PAPUC and therefore is not determinable at this time.

In addition to its base rates and DSIC, PSW has utilized a surcharge on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated into base rates. From May 1998 until February 1999, PSW was required to provide a revenue credit of 0.11% (\$110 on an annual basis) of base water rates in order to provide its customers with the savings associated with a decrease in

the Pennsylvania Capital Stock Tax rate. In February 1999, PSW added a 1.04% surcharge (\$1,384 on an annual basis) as a result of increases in the Pennsylvania Public Utility Realty Tax, resulting in a combined surcharge of 0.93%. Effective April 1, 1999, the combined surcharge was adjusted to 0.96% due to a change in the revenue credit from 0.11% to 0.08%. Effective May 29, 1999, the combined surcharge was adjusted to 0.80% (\$1,153 on an annual basis) due to a decrease in the Pennsylvania Capital Stock Tax rate. CWC's Pennsylvania subsidiaries have also begun to utilize a surcharge at various rates (providing approximately \$250 of revenues on an annual basis) on their bills to reflect the changes in Pennsylvania State Taxes.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of dollars, except per share amounts) (continued)
(UNAUDITED)

Note 5 Long-term Debt and Loans Payable

In January 1999, PSW issued a First Mortgage Bond of \$10,000 5.85% Series due 2004 and in April 1999, PSW issued a First Mortgage Bond of \$15,000 6.00% Series due 2004 through the medium-term note program. Proceeds from these issues were used to reduce the balance of PSW's revolving credit facility. 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 June 1999, two of the three CWC revolving credit agreements were due and terminated as planned. The two expired revolving credit facilities had represented aggregate borrowing facilities of \$20,000 and amounts borrowed under these facilities have been repaid. In August 1999, the remaining CWC revolving credit agreement was amended to increase the facility from \$15,000 to \$20,000.

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. As of closing, project costs of \$22,562 were already incurred and accordingly the Trustee transferred such amounts to PSW. As a result, \$22,562 of the balance on PSW's revolving credit agreement has been classified as long-term debt as of September 30, 1999. The remainder of the proceeds are being held by the Trustee pending completion of the remainder of the projects financed with this issue. It is expected that these projects will be completed in 2000, however, funds will be drawn from the trust during the interim as expenditures are made on these projects.

Note 6 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common 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 common share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per common share:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	1999	1998	1999	1998
Average common shares outstanding during the period for Basic computation.....	40,823	40,263	40,898	40,563
Dilutive effect of employee stock options.....	458	478	435	514

	-----	-----	-----	-----
Average common shares outstanding during the period for Diluted computation.....	41,281	40,741	41,333	41,077
	=====	=====	=====	=====

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 Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements address, among other things, the Company's: use of cash; projected capital expenditures; liquidity; Year 2000 disclosure, including statements regarding readiness, remediation, costs, risks and contingency plans; as well as information contained elsewhere in this Report where statements are preceded by, followed by or include the words "believes", "expects", "anticipates", "plans", "projects" 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 the Company's 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, acquisitions and the Year 2000 readiness of third parties with whom the Company deals. The Company undertakes 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 ("PSC" or "the Company"), a Pennsylvania corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW") and Consumers Water Company ("CWC"). PSW, a regulated water utility, provides water to approximately 303,000 customers within its 482 square-mile service territory. PSW's service territory is located north and west of the City of Philadelphia. In addition, water service is provided to approximately 6,800 customers through an operating and maintenance contract with a municipal authority contiguous to its service territory.

CWC owns 100% of the voting stock of four water companies and at least 96% of the voting stock of three water companies, collectively CWC's operating subsidiaries. These water companies are regulated water utilities providing water and wastewater service in 27 operating divisions to approximately 230,000 customers in Pennsylvania, Ohio, Illinois, New Jersey and Maine.

Financial Condition

During the first nine months of 1999, the Company had \$67,723 of capital expenditures, redeemed \$1,460 of preferred stock, and repaid \$2,125 of customer advances for construction. Of the total capital expenditures, \$12,100 was related to the construction of the Shenango water treatment plant in Sharon, Pennsylvania, \$24,200 for infrastructure improvements and the balance for routine capital improvements. Construction of the Shenango plant commenced in December 1997 and is expected to cost \$35,000 with completion anticipated in the first quarter of 2000. To date, \$27,400 has been expended on the Shenango plant construction.

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) (continued)

During the first nine months of 1999, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds, available working capital and funds available under the revolving credit agreements were used to fund the cash requirements discussed above and to pay dividends. In connection with the merger of CWC on March 10, 1999, the Company issued 13,014,015 shares of common stock in exchange for all of the outstanding stock of CWC. In January 1999, PSW issued a First Mortgage Bond of \$10,000 5.85% Series due 2004 through the medium-term note program. In April 1999, PSW issued a First Mortgage Bond of \$15,000 6.00% Series due 2004. Proceeds from these issues were used to reduce the balance of PSW's revolving credit facility. 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. Effective with the September 1, 1999 payment, the Company has increased the quarterly dividend on common stock from \$.17 per share to \$.18 per share.

At September 30, 1999, the Company, PSW and CWC had short-term lines of credit of \$24,000, \$1,000 and \$87,800, respectively. At September 30, 1999, the Company, PSW and CWC had \$12,000, \$1,000 and \$60,520 available, respectively under short-term lines of credit. In June 1999, two of the three CWC revolving credit agreements became due and were terminated as planned. The two expired revolving credit facilities had represented aggregate borrowing facilities of \$20,000 and amounts borrowed under these facilities have been repaid. In August 1999, the remaining CWC revolving credit agreement was amended to increase the facility from \$15,000 to \$20,000. At September 30, 1999, PSW's revolving credit agreement remained as a \$50,000 facility. At September 30, 1999, PSW and CWC had \$6,575 and \$10,400 available, respectively, under their revolving credit agreements. 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. As of November 12, 1999, the Trustee for this issue held \$2,438 in an interest bearing account pending completion of the remainder of the projects financed with this issue. Accordingly, \$22,562 of borrowings under the PSW revolving credit agreement were repaid with the proceeds from this issuance of First Mortgage Bonds and this portion of the revolving credit balance is classified as long-term debt as of September 30, 1999. The remainder of the revolving credit agreements balances have been classified as current portion of long-term debt. PSW intends to renew this facility and continue to periodically refinance portions of the borrowings under this facility through the issuance of First Mortgage Bonds.

In the fourth quarter of 1999, PSW intends to establish a \$300,000 medium-term note program to replace a similar program that expired in July 1999. The program will provide 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. The proceeds from debt issuances under this program will be used for general corporate purposes, to fund PSW's ongoing construction programs and to partially fund the acquisition of the water utility assets of Bensalem Township and other acquisitions.

13

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) (continued)

Results of Operations

Analysis of First Nine Months of 1999 Compared to First Nine Months of 1998

Operating revenues increased \$5,427 or 2.9% primarily due to additional revenues from acquisitions, rate increases, including an additional \$2,260 from the Distribution System Improvement Charge and \$1,040 of additional revenues from a state tax adjustment surcharge that were added to customers bills in Pennsylvania, offset in part by \$1,623 of revenues associated with CWC's New Hampshire operations which was sold in April 1998. In addition, water consumption for the first nine months increased despite drought declarations in Pennsylvania and New Jersey that affected revenues in the third quarter of 1999. Six rate increases were granted or became effective in various CWC divisions

since the first quarter of 1998 which contributed an additional \$1,540 of revenues in the first nine months of 1999.

Operations and maintenance expenses decreased by \$1,252 or 1.7% due to \$592 of operations and maintenance expenses associated with CWC's New Hampshire operations which was sold in April 1998, savings from reduced electric costs as a result of electric deregulation in Pennsylvania and a reduction in general corporate expenses due to the closing of CWC's corporate office. The decreased operating costs were offset in part by increased wages and higher maintenance expenses at PSW resulting from an increased number of main breaks.

Depreciation expense increased \$2,451 or 12.0% reflecting the utility plant placed in service since the third quarter of 1998, including the assets acquired through system acquisitions.

Amortization decreased \$748 primarily due to the completion of the amortization in 1998 of the costs associated with PSW's 1997 rate filing.

Taxes other than income taxes decreased by \$138 or 0.8% due to a decrease in the Pennsylvania Public Utility Realty Tax ("PURTA"), the other taxes of CWC's New Hampshire operations, sold in April 1998, and a reduction in state regulatory taxes. The reduction in the PURTA tax is due to an additional 1998 charge for PURTA tax resulting from an additional assessment.

Restructuring costs of \$3,787 were recorded in the first quarter of 1999, as described in Note 2 - Merger with Consumers Water Company, which includes severance of \$2,940 and other costs associated with the closing of CWC's corporate office.

Net interest expense increased by \$1,240 or 5.2% due to increased borrowings to finance on-going capital projects and acquisitions, offset partially by a reduction in debt associated with CWC's New Hampshire operations and lower interest rates on borrowings.

Allowance for funds used during construction increased by \$508 primarily due to an increase in the average balance of utility plant construction work in progress resulting from the construction of the \$35,000 Shenango water treatment plant. Construction commenced on this facility in December 1997 and is expected to be completed in the first quarter of 2000.

The merger transaction costs in the first quarter of 1999 of \$6,334 represents the fees for investment bankers, attorneys, accountants, and other administrative charges associated with the merger of Consumers Water Company consummated on March 10, 1999. See Note 2 - Merger with Consumers Water Company.

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) (continued)

Gains on sales of properties decreased by \$6,482 primarily due to the gain on the sale of CWC's New Hampshire operations of \$6,680 recorded in the second quarter of 1998, offset in part by gains on sales of properties in 1999.

The Company's effective income tax rate was 44.6% in the first nine months of 1999 and 39.9% in 1998. The effective tax rate increased due to the estimated non-deductible portion of the \$6,334 of merger transaction costs recorded in the first quarter of 1999. Exclusive of the merger transaction costs and related tax benefits of \$200, the 1999 effective income tax rate was 39.8%.

Dividends on preferred stock decreased \$42 or 28.8% due to the redemption in January 1999 of 14,600 shares of preferred stock. The preferred shares were redeemed at the liquidation value of \$100 per share.

Net income available to common stock for the first nine months of 1999 decreased by \$9,535, of which \$8,596, net of tax, was related to the merger costs recorded in the first quarter of 1999, \$3,903, net of tax, was related to the gain on sale of CWC's New Hampshire operations in April 1998 and the other factors described above. Excluding these non-recurring items, net income available to

common stock increased \$2,964 or 9.2%. On a diluted per share basis, earnings decreased \$.24 reflecting the change in net income and a 1.3% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or otherwise issued through the Dividend Reinvestment Plan and the employee stock and incentive plan.

Analysis of Third Quarter of 1999 Compared to Third Quarter of 1998

Operating revenues for the quarter increased \$346 or 0.5% primarily due to rate increases, including an additional \$1,100 from the Distribution System Improvement Charge and \$420 of additional revenues from a state tax adjustment surcharge that were added to customers' bills in Pennsylvania, offset in part by a decrease in customer consumption of water in Pennsylvania and New Jersey. The Pennsylvania and New Jersey service territories were affected by drought declarations during the third quarter of 1999 in which the Governors of each state imposed mandatory bans on nonessential water usage. These restrictions were lifted at the end of September and in early October. While these restrictions were in effect, water consumption in these areas declined to levels below those experienced in 1998. Three rate increases were granted or became effective in various CWC divisions since the third quarter of 1998, providing for an additional \$124 of revenues in the quarter.

Operations and maintenance expenses decreased by \$571 or 2.3% due to a reduction in general corporate expenses related to the closing of CWC's corporate office in March 1999, reduced production costs attributable to reduced production and savings from reduced electric costs, offset partially by increased wages and maintenance expenses. The reduced electric costs result from the electric deregulation in Pennsylvania. The increased maintenance expenses result from an increase in water main repairs.

15

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) (continued)

Depreciation expense increased \$833 or 12.0% reflecting the utility plant placed in service since the third quarter of 1998.

Amortization decreased \$324 primarily due to the completion of the amortization in 1998 of the costs associated with PSWs 1997 rate filing.

Taxes other than income taxes decreased by \$280 or 4.8% as a result of an additional 1998 charge for PURTA tax due to an additional tax assessment that had been necessary to offset a state-wide deficit in the collection of this tax. The decreased PURTA tax is offset partially by an increase in local real estate taxes due to additional capital expenditures.

Net interest expense increased by \$676 or 8.8% due to increased borrowings to finance on-going capital projects offset partially by lower interest rates on borrowings.

Allowance for funds used during construction increased by \$203 primarily due to an increase in the average balance of utility plant construction work in progress resulting from the construction of the \$35,000 Shenango water treatment plant. Construction commenced on this facility in December 1997 and is expected to be completed in the first quarter of 2000.

Gains on sales of properties increased by \$190 due to the gain on the sale of various land parcels in CWC's Illinois subsidiary.

The Company's effective income tax rate was 38.6% in the third quarter of 1999 and 39.8% in 1998. The effective tax rate decreased due to differences between tax deductible expenses and book expenses, offset in part by an increase in the statutory Federal income tax rate from 34% to 35% in the CWC operating subsidiaries.

Dividends on preferred stock decreased \$13 or 27.1% due to the redemption in January 1999 of 14,600 shares of preferred stock. The preferred shares were redeemed at the liquidation value of \$100 per share.

Net income available to common stock for the quarter increased by \$545 primarily as a result of factors described above. On a diluted per share basis, earnings increased \$.01 or 2.9% reflecting the change in net income and a 0.6% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or otherwise issued through the Dividend Reinvestment Plan and the employee stock and incentive plan.

Recent Events

The Company's water customers are located in five states and as of December 31, 1998, 65% were located in Pennsylvania. On June 10, 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. On July 20, 1999, the Governor of Pennsylvania issued a drought emergency order for the counties that were previously under the

16

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) (continued)

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 PSC's water companies. While portions of Pennsylvania, particularly those dependent on ground water, experienced water shortages, the Company's 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 are expected to return to normal levels.

Year 2000

Overview

The Company has actively pursued a Year 2000 Program (the "Program"). The objective of the Program is to provide reasonable assurance that the Company's critical systems and processes that impact the Company's ability to deliver water to its customers will not experience significant interruptions that would interfere with such water service or result in a material business impairment that would have an adverse impact to the Company's operations, liquidity or financial condition as a result of the Year 2000 issue. For purposes of the Program, the Year 2000 issue is 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. The Company's systems and processes that were reviewed include: (i) internal systems and processes, consisting of software, databases, information technology hardware and imbedded microprocessors; and (ii) relationships with third parties. The Program involves a systematic approach to the Year 2000 issue consisting of the following steps: (i) inventorying the component elements of the Company's systems and processes; (ii) assessing whether there are Year 2000 issues with such systems and processes; (iii) remediation of systems and processes that are identified as having Year 2000 issues; (iv) testing the remediation measures that are implemented; and (v) developing contingency plans.

The Company's State of Readiness

Internal Systems and Processes The Company has evaluated its systems and processes based on a prioritization of the risks they pose to the overall objectives of the Program. An inventory of all critical systems and processes and an assessment of Year 2000 issues for the Company's critical systems has been completed. As a result of the assessment, it was determined that the internal systems and processes directly related to the treatment and distribution of water to its customers would not be significantly affected by the Year 2000 issue. Some financial and office systems may have been affected and the remediation or replacement and testing of these systems is under way. It is anticipated that remediation or replacement and testing of the last of these

office systems is anticipated to be completed in November 1999.

Relationships with Third Parties - The Company's relationships with third parties that may be affected by the Year 2000 issue may be classified into three categories: customers; suppliers; and third party software vendors. The majority of the Company's revenues are from residential customers and commercial customers (consisting primarily of apartments, colleges, hospitals, small businesses and municipalities), and from fire protection services. It is not anticipated that

17

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) (continued)

water use by customers in these categories will be significantly affected by the Year 2000 issue. No single customer accounted for more than one percent of the Company's 1998 revenues.

The Company has contacted its key suppliers to determine their Year 2000 compliance status and the responses received to date indicate that such suppliers are or intend to be Year 2000 compliant. Because of the substantial electric power requirements of the Company's water treatment and distribution systems, electric power supply may be the most critical supplier relationship. To date, the Company's electric suppliers have indicated that they do not anticipate service disruptions from the Y2K problem. Third party vendors of critical software systems have been contacted regarding the compliance status of their software and either the vendors have represented that their software packages are compliant or the software is being remedied as part of the Company's Year 2000 Program.

The Costs to Address the Company's Year 2000 Issues

The Company estimates its total cost for its Year 2000 Program to be approximately \$8,000 which includes the costs to develop a new customer billing system that the Company is implementing to provide added capacity and capabilities. Substantially all of these costs have been incurred to date in bringing its critical systems into compliance.

The Risks of the Company's Year 2000 Issues

A material Year 2000 noncompliance could result in an interruption in, or failure of, certain normal business activities or operations. Such noncompliance could materially and adversely affect the Company's water service and results of operations, liquidity and financial condition. Because of the uncertainty inherent in the Year 2000 issue, due primarily from the uncertainty of the Year 2000 readiness of third party suppliers, the Company is unable to determine at this time whether the consequences of Year 2000 noncompliances will have a material impact on the Company. The Company's Year 2000 Program is expected to significantly reduce the Company's level of uncertainty about the Year 2000 issue and, in particular, about the Year 2000 compliance and readiness of its key vendors and suppliers. The Company believes that, with the completion of its Program, the possibility of significant interruptions of normal operations should be reduced.

The Company's Contingency Plans

The Company had developed contingency plans for critical systems or processes or vendor relationships that cannot be verified as Year 2000 compliant. Contingency plans have also been developed for certain other critical systems, notwithstanding a determination of their Year 2000 compliance, where such systems would have a significant effect on the Company's ability to deliver water to its customers.

Forward-looking Statements

The statements in the Company's Year 2000 disclosure contain forward-looking statements and should be read in conjunction with the Company's disclosure under the "Forward-looking Statements" section in the "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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) (continued)

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". The Company's adoption of this statement on January 1, 1999 did not have a material impact on the Company's results from operations or financial condition.

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". The Company's adoption of this statement on January 1, 1999 did not have a material impact on the Company's results from operations or financial condition.

In June 1998, the Financial Accounting Standards Board 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. The Company plans to adopt these statements in 2001 as required. As of September 30, 1999, the Company had no derivative instruments or hedging activities.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. Reference is made to Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1998, which is included by a reference herein.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. Description

4.26	Thirty-second Supplemental Indenture, dated as of October 1, 1999
10.37	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999
10.38	Construction and Financing Agreement between the Delaware County Industrial Development Authority

and Philadelphia Suburban Water Company dated as
of October 1, 1999

27 Financial Data Schedule

(b) Reports on Form 8-K

None

20

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be executed on its behalf by the undersigned thereunto duly authorized.

November 12, 1999

PHILADELPHIA SUBURBAN CORPORATION
Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

/s/ David P. Smeltzer

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

EXHIBIT INDEX

Exhibit No.	Description	Page No.
4.26	Thirty-second Supplemental Indenture, dated as of October 1, 1999	23
10.37	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999	58
10.38	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999	82
27	Financial Data Schedule	121

THIRTY-SECOND SUPPLEMENTAL
INDENTURE
DATED AS OF OCTOBER 1, 1999

TO

INDENTURE OF MORTGAGE
DATED AS OF JANUARY 1, 1941

PHILADELPHIA SUBURBAN WATER COMPANY

TO

CHASE MANHATTAN TRUST COMPANY, NATIONAL ASSOCIATION

\$25,000,000 FIRST MORTGAGE BONDS, 6.00% Series due 2029

THIRTY-SECOND SUPPLEMENTAL INDENTURE

THIRTY-SECOND SUPPLEMENTAL INDENTURE dated as of the 1st day of October, 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; 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.; on October 1, 1991, First Pennsylvania Bank N.A. merged with and into The Philadelphia National Bank, which changed its name to CoreStates Bank, N.A.; 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 and changes of name 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,

1

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 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, a 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 and a Thirty-First Supplemental Indenture dated as of July 1, 1997, 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-seven 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

2

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
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
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	
6.35% Series due 2025	Thirtieth Supplemental	22,000,000
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	
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]

3

COUNTY

Indenture	Date of Recording	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

4

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
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	779

and

5

WHEREAS, the original Indenture was recorded in Berks County on August 16, 1999 in Book 3113, page 707; 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 lien of the Original Indenture, as supplemented, has been perfected as a security interest under the Pennsylvania Uniform Commercial Code by filing a financing statement in the office of the Secretary of the Commonwealth; and

WHEREAS, the Company proposes to create under the Original Indenture, as supplemented by this Thirty-Second Supplemental Indenture, a new series of bonds to be designated "First Mortgage Bonds, 1999 Series due 2029" (herein referred to as the "Bonds") to be limited in aggregate principal amount to \$25,000,000, to be issued only as registered bonds without coupons, to be dated as of October 1, 1999, to bear interest at the rate of 6% per annum, and to mature on June 1, 2029; and

WHEREAS, in order to finance the cost of acquiring, constructing, installing and equipping facilities for the furnishing of water, in the counties of Bucks, Chester, Delaware and Montgomery, which are to be financed under a Construction and Financing Agreement dated as of October 1, 1999 (the "Financing Agreement") between the Company and the Delaware County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and which are described in Exhibit A thereto, less any deletions therefor and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement (the "Facilities"), the Company has requested the Authority to issue a new series of bonds to be known as the Authority's Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1999 in the aggregate principal amount of \$25,000,000 (the "Authority Bonds"); and

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of October 1, 1999 (the "Authority Indenture"), between the Authority and Chase Manhattan Trust Company, National Association, as trustee (the "Authority Trustee"); and

WHEREAS, the Bonds are to be issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, redemption premium, if any, and interest on the Authority Bonds pursuant to the Financing Agreement; and

WHEREAS, the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such

payments are to be assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, redemption premium, if any, and interest on, the Authority Bonds; and

6

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, and Thirty-First Supplemental Indentures, the Company has acquired 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-Second Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Thirty-Second Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Thirty-Second 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 Indenture to conform to any pertinent law or usage:

7

No. R-1

\$25,000,000

PHILADELPHIA SUBURBAN WATER
COMPANY

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 6% Series Due 2029

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 The Delaware County Industrial Development Authority or its registered assigns, on the 1st day of June, 2029, at the designated office of Chase Manhattan Trust Company, National Association in the City of Philadelphia, Pennsylvania, the sum of Twenty-five million dollars 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 and to pay interest thereon at said office to the registered owner hereof by draft or check of the Trustee mailed to such registered owner from the interest payment date next preceding the date of the

authentication of this Bond (or if this Bond is authenticated after a Record Date as defined below and on or before the succeeding interest payment date, from such succeeding interest payment date, or if this Bond is authenticated prior to June 1, 2000 , from the date hereof) until the principal hereof shall become due and payable, at the rate of six percent (6%) per annum, payable semiannually in like coin or currency on the first day of June and the first day of December in each year, commencing June 1, 2000 and to pay interest on overdue principal (including any overdue required or optional prepayment of principal) and premium, if any, and, to the extent legally enforceable, on any overdue installment of interest at a rate of 6% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Thirty-Second Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this Bond (or a Bond or Bonds in exchange for which this Bond was issued) is registered at the close of business on the fifteenth day of the calendar month next preceding the month in which the interest payment date occurs or, if such day is not a business day, on the next preceding business day (a "record date") and principal, premium, if any, and interest on this Bond shall be paid in accordance with written payment instructions of the registered owner delivered to the Trustee (defined below) on or before such record date.

8

The provisions of the Bond are continued on the reverse hereof and such continued provisions shall for all purposes have the same effect as if fully set forth at this place.

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 October 1, 1999.

Attest:

PHILADELPHIA SUBURBAN WATER COMPANY

(Assistant) Secretary

By: _____
Vice President and Treasurer

(Form of Reverse of Bond)

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 (succeeded by Chase Manhattan Trust Company, National Association), 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 and 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-Second Supplemental Indenture" dated as of October 1, 1999, and designated therein as "First Mortgage Bonds, 6% Series due 2029" (the "Bonds").

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental

9

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 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 have been issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority (defined below) an amount equal to the principal, premium, if any, of, and interest on, the Authority Bonds (defined below) pursuant to the Construction and Financing Agreement (the "Financing Agreement") dated as of October 1, 1999, between the Delaware County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance the cost of acquiring, constructing, installing and equipping facilities for the furnishing of water, in the counties of Bucks, Chester, Delaware and Montgomery, which are to be financed under the Financing Agreement and which are described in Exhibit A thereto, less any deletions therefor and together with any additions, improvements and modifications thereto and substitutions therefor made in accordance with the provisions of the Financing Agreement (the "Facilities"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1999, in the aggregate principal amount of \$25,000,000 due June 1, 2029 (the "Authority Bonds") and bearing interest at 6% per annum.

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 1, 1999 (the "Authority Indenture"), between the Authority and Chase Manhattan Trust Company, National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as Trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Bonds subject to the same restriction on transfer.

10

In the event any Authority Bonds shall be purchased by the Company and cancelled pursuant to the Authority Indenture, Bonds corresponding in principal amount to the Authority Bonds so purchased and cancelled shall be deemed to be paid in full, and in the event and to the extent the principal of, and premium, if any, or interest on, any Authority Bonds is paid out of funds held by the Authority Trustee other than payments on Bonds, the corresponding payment of the principal of and premium, if any, or interest on, an aggregate principal amount of such Authority Bonds shall be deemed to have been satisfied.

In the event this Bond shall be deemed to have been paid in full, this Bond shall be surrendered to the Trustee for cancellation. In the event this Bond shall be deemed to have been paid in part, this Bond shall be presented to the Trustee for notation hereon of the payment of the portion of the principal hereof so deemed to have been paid.

The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity on or after June 1, 2006 by the Authority, at the option of the Company, out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption prices (stated as a percentage of the principal amount), as set forth below, of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption:

Optional Redemption Periods (inclusive)	Redemption Prices
-----	-----
June 1, 2009 through May 31, 2010	101%
June 1, 2010 and thereafter	100%

(b) The Bonds are subject to mandatory redemption as a whole at any time prior to maturity should the Company be required to accelerate the payments of the Authority Bonds pursuant to the provisions of Section 7.02 (a) of the Financing Agreement and 7.01(b) and (c) of the Authority Indenture, if the Trustee shall receive a written notice from the Authority or the Authority Trustee that the Authority Bonds are subject to mandatory redemption in accordance with any of such provisions.

(c) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

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 date fixed for redemption.

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 outstanding to annul such declaration.

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in the City of Philadelphia, Pennsylvania, upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new Bond or Bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

The Company and the Trustee 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.

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.

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.

(Form of Trustee's Certificate)

This Bond is one of the Bonds, of the series designated therein, referred to in the within-mentioned Thirty-Second Supplemental Indenture.

CHASE MANHATTAN TRUST COMPANY,
NATIONAL ASSOCIATION

By: _____
Authorized Signer

12

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-Second Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Thirty-Second Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Thirty-Second Supplemental Indenture has been in all respects duly authorized:

NOW, THEREFORE, THIS THIRTY-SECOND 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-Second Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, and intending to be legally bound, has granted, bargained, sold, aliened, enfeoffed, 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-First Supplemental Indenture.

13

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.

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.

14

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.

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 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 1 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.

15

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.

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 Provisions

SECTION 1. There shall be a thirty-eighth series of bonds, limited in aggregate principal amount to \$25,000,000 designated as "Philadelphia Suburban Water Company, First Mortgage Bonds, 6% Series due 2029".

Interest on the Bonds shall be payable semiannually on June 1 and December 1 of each year (each an "interest payment date"), commencing June 1, 2000. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding its date of authentication, unless authenticated after a record date and on or before the succeeding interest payment date, in which case it shall bear interest from such succeeding interest payment date, or, unless authenticated on or prior to the record date for the first interest payment date for the Bonds, in which case it shall bear interest from October 1, 1999; provided, however, that, if at the time of authentication of any Bond, interest on the predecessor Bond of such Bond is in default, such Bond shall bear interest from the date to which interest has been paid, or, if no interest has been paid, from October 1, 1999.

16

The Bonds shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on June 1, 2029 and shall bear interest at the rate of 6%.

The Bonds shall be issuable only as registered bonds without coupons, shall be in the form hereinabove recited, in the denomination of Five Thousand Dollars (\$5,000) or any integral multiple thereof, shall be lettered "R", and shall bear such numbers as the Company may reasonably require.

The principal of, and interest on the Bonds shall be payable at the designated office of the trustee in the City of Philadelphia, Pennsylvania, 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; provided, however, that each installment of interest may be paid by check to the order of the person entitled thereto, mailed to such person's address as the same appears on the books maintained for such purpose by or on behalf of the Company, or by bank wire transfer of immediately available funds pursuant to instructions and conditions incorporated in an agreement between such person and the Trustee or the Company.

The person in whose name any Bond is registered at the close of business on any record date (as hereinafter defined) 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 days preceding such subsequent record date, such record date to be not less than ten days preceding the date of payment of such defaulted interest. The term "record date" with respect to any regular interest payment date shall mean the fifteenth day of the calendar month next preceding the month in which such interest payment date occurs.

The Bonds are being issued by the Company to secure the obligation of the Company to pay to or for the account of the Authority an amount equal to the principal of, and interest on, the Authority Bonds pursuant to the Financing Agreement. The Authority Bonds are being sold to finance the cost of the acquiring, constructing, installing and equipping of the Facilities.

The Authority Bonds are to be issued under the Authority Indenture and

the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as Trustee under the Authority Indenture, which successor and each subsequent successor shall hold the Bonds subject to the same restriction on transfer.

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.

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.

SECTION 2. The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity on or after June 1, 2009 by the Authority, at the option of the Company, out of moneys deposited with or held by the Trustee for such purpose, as a whole or in part, at any time in the manner described below, at the redemption prices (stated as a percentage of the principal amount), as set forth below, of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption:

Optional Redemption Periods (inclusive) -----	Redemption Prices -----
June 1, 2009 through May 31, 2010	101%
June 1, 2010 and thereafter	100%

(b) The Bonds are subject to mandatory redemption as a whole or in part at any time prior to maturity should the Company be required to accelerate the payments of the Authority Bonds pursuant to the provisions of Article VII of the Financing Agreement, if the Trustee shall receive a notice from the Authority or the Authority Trustee that the Bonds are subject to mandatory redemption in accordance with any of such provisions.

(c) (reserved)

(d) The Bonds are also subject to mandatory redemption by the Company in whole if the Trustee shall receive a written demand from the Authority Trustee for redemption of all such Bonds held by the Authority Trustee stating that an "Event of Default" as defined in Section 9.01(a) of the Authority Indenture has occurred and is continuing and that payment of the principal of the Authority Bonds has been accelerated pursuant to Section 9.01(b) of the Authority Indenture, provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

SECTION 3. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture.

SECTION 4. In the event any Authority Bonds shall be purchased by the Company, surrendered by the Company to the Authority Trustee for cancellation

and cancelled by the Authority Trustee, Bonds corresponding in principal amount to the Authority Bonds so purchased, surrendered and cancelled shall be deemed to have been paid in full.

SECTION 5. In the event and to the extent the principal of and premium, if any, or interest on, any Authority Bonds is paid out of funds held by the

Authority Trustee other than payments of Bonds, the corresponding payment of the principal of, and premium, if any, or interest on, an aggregate principal amount of Bonds equal to the aggregate principal amount of such Authority Bonds shall be deemed to have been satisfied.

SECTION 6. All Bonds deemed to have been paid in full as provided in Section 4 and 5 of this Article I of this Thirty-Second Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, on the written request of the Company, deliver the same to the Company. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 4 or Section 5, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond.

SECTION 7. Bonds in the aggregate principal amount of \$25,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith 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.

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

19

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) 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.

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;

20

(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;

(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

(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, 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-Second 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 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:

"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.

"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 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.

"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.

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

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

23

"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.

"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.

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

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) of any such corporation.

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-Second Supplemental

Indenture.

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 to all such attorneys, agents, officers and employees as may reasonably be employed in connection with the trusts hereof. The Trustee may act or refrain from acting and rely upon and be free from all liability for so

24

relying upon the opinion or advice of any attorney (who may be the attorney or attorneys for the Company). 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 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 an Hazardous Substance (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 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 and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under 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.655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products or any Hazardous Substance contained

within or release from any underground or aboveground storage tanks. As used in

25

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.

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

SECTION 2. Any notices to the Trustee under this Thirty-Second Supplemental Indenture shall be delivered to the Trustee 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 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-Second 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-Second Supplemental Indenture is dated as of October 1, 1999 for convenience and for the purpose of reference, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

26

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

27

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their authorized officers have hereto affixed their signatures, and their authorized officers have duly attested the execution hereof, as of the 1st day of October, 1999.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER

COMPANY

Attest: /s/ Suzanne Falcone

Asst. Secretary

By: Kathy L. Pape

Vice President and Treasurer

[CORPORATE SEAL]

CHASE MANHATTAN TRUST
COMPANY, NATIONAL ASSOCIATION,
as Trustee

Attest: -----
Authorized Officer

By: -----
Authorized Officer

EXHIBIT A

BONDS REDEEMED OR PAID AT MATURITY

Series		Principal Amount Paid or Redeemed (If less than al Bonds of Series)	Date Paid	Maturity
-----		-----	-----	-----
3.25%	Series Due 1971		12/31/70	Redemption
9.63%	Series Due 1975		6/15/75	Maturity
9.15%	Series Due 1977		1/1/77	Maturity
3.00%	Series Due 1978		7/1/78	Maturity
3.38%	Series Due 1982		7/1/82	Maturity
3.90%	Series Due 1983		7/1/83	Maturity
3.50%	Series Due 1986		1/1/86	Maturity
4.50%	Series Due 1987		1/1/87	Maturity
4.13%	Series Due 1988		5/1/88	Maturity
5.00%	Series Due 1989		9/1/89	Maturity
4.63%	Series Due 1991		5/1/91	Maturity
4.70%	Series Due 1992		4/1/92	Maturity
6.88%	Series Due 1993		1/1/93	Maturity
4.55%	Series Due 1994		3/1/94	Maturity
10.13%	Series Due 1995	\$ 6,300,000	--	Sinking Fund
10.13%	Series Due 1995	\$ 3,700,000	5/17/93	Redemption
9.20%	Series Due 2001	\$ 3,850,000	--	Sinking Fund
9.20%	Series Due 2001	\$ 3,150,000	5/1/93	Redemption
8.40%	Series Due 2002	\$ 5,850,000	--	Sinking Fund
8.40%	Series Due 2002	\$ 4,150,000	1/2/96	Redemption
5.95%	Series Due 2002	\$ 2,400,000	--	Sinking Fund
12.45%	Series Due 2003	\$ 1,000,000	8/1/93	Sinking Fund
12.45%	Series Due 2003	\$ 9,000,000	8/2/93	Redemption
8.88%	Series Due 2010	\$ 800,000	--	Sinking Fund
8.88%	Series Due 2010	\$ 7,200,000	6/30/92	Redemption
13.00%	Series Due 2005		8/2/95	Redemption
7.88%	Series Due 1997		1/2/96	Redemption
10.65%	Series Due 2006		4/2/96	Redemption
5.50%	Series Due 1996		11/1/96	Maturity
8.44%	Series Due 1997		4/1/97	Maturity
7.15%	Series Due 2008	\$ 4,000,000	--	Sinking Fund

EXHIBIT B

NAME	GRANTOR	COUNTY	TAX PARCEL NO.	INDEX NO.	DEED DATE	BOOK	PAGE
PEDDLERS VIEW WELL SITE #1	DELUCA ENTERPRISES, INC	BUCKS	41-48-05	--	8/6/97	1461	217
PEDDLERS VIEW WELL SITE #2	DELUCA ENTERPRISES, INC	BUCKS	41-47-142	--	8/6/97	1461	213
FERNHILL PLANT & RESERVOIR	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	52-3-106	VI-A-11	1/21/98	4292	396
FERNHILL TANK & OFFICE	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	52-3-174	VI-A-59	1/21/98	4292	384
HOOPES PARK TANK	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	51-5-53.1	VI-A-62	1/21/98	4292	402
NEW & GAY STREET TANK	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	1-8-405	VI-A-63	1/21/98	4292	408
INGRAMS MILL FILTRATION PLANT	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	51-4-44	VI-D-8	1/21/98	4292	390
WHITE WELL STATION	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	51-5-38.2	VI-E-66	1/21/98	4292	415
WHITE WELLS 4 & 5	WEST CHESTER AREA MUNICIPAL AUTHORITY	CHESTER	51-5-18	VI-E-67	1/21/98	4292	421
VALLEY HILL TANK	D.P.I. CAPITAL FUND II LP.	CHESTER	33-5H-7	VI-B-44	6/19/98	4369	838
9 ELLIOT AVENUE	WALTER T. BROWN	MONTGOMERY	40-00-17076-00-2	VII-A-15	7/1/98	5234	1164
970 RADCLIFFE STREET	BRISTOL BOROUGH	BUCKS	4-21-78	VI-D-9	12/10/98	1752	1863

30

Chase Manhattan Trust Company National Association, Mortgagee and Trustee named in the foregoing Thirty-Second Supplemental Indenture, hereby certifies that its precise name and the post office address of its Global Trust Services Group in Philadelphia, Pennsylvania are as follows:

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

CHASE MANHATTAN TRUST COMPANY
NATIONAL ASSOCIATION

By: _____
Authorized Officer

31

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 5th day of October, 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-Second 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/s/Linda M. Freeman

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 5th day of October, 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-Second 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/ Caroline N. Hunter

This Thirty-Second Supplemental Indenture was recorded on October 1, 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:

County	Mortgage Book	Page
Berks	-----	----
Bucks	_____	_____
Chester.	_____	_____
Delaware	_____	_____
Montgomery	_____	_____

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

BOND PURCHASE AGREEMENT

\$25,000,000
DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
6.00% Water Facilities Revenue Bonds
due June 1, 2029
(Philadelphia Suburban Water Company Project)
Series of 1999

Bond Purchase Agreement dated September 29, 1999 among the DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Issuer"); PHILADELPHIA SUBURBAN WATER COMPANY, a Pennsylvania corporation (the "Company"), and COMMERCE CAPITAL MARKETS, INC. (the "Underwriter").

1. Background.

(a) The Issuer proposes to enter into a Construction and Financing Agreement (the "Financing Agreement") dated as of October 1, 1999 with the Company, under which the Issuer will agree to loan to the Company funds to provide financing of the costs of certain capital projects consisting of improvements and additions to the Company's water facilities (the "Capital Projects") located within municipalities in Delaware, Chester, Bucks and Montgomery Counties, Pennsylvania. To finance the loan under the Financing Agreement, the Issuer proposes to issue and sell \$25,000,000 aggregate principal amount of the bonds identified above (the "Bonds") to the Underwriter, who will in turn reoffer the Bonds for sale to the public;

(b) The Bonds will be issued pursuant to the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended and supplemented (the "Act"), a resolution adopted by the Issuer on May 11, 1998, as supplemented by a resolution adopted by the Issuer on May 19, 1999 (together, the "Resolution") and under a Trust Indenture dated as of October 1, 1999 (the "Indenture") between the Issuer and Chase Manhattan Trust Company, National Association, as trustee (the "Trustee"). The Bonds will have such terms as are set forth in Schedule I attached hereto. The Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond, in the principal amount of \$25,000,000 (the "First Mortgage Bond") to be issued concurrently with the Bonds pursuant to the Company's Indenture of Mortgage (the "Original Indenture") dated as of January 1, 1941 to Chase Manhattan Trust Company, National Association, as successor trustee (the "Mortgage Trustee"), as heretofore amended and supplemented and as to be further supplemented by a Thirty-Second Supplemental Indenture (the "Thirty-Second Supplemental Indenture") dated as of October 1, 1999 (the Original Indenture as so supplemented and amended is hereinafter referred to as the "First Mortgage Indenture"). All of the Issuer's rights under the Financing Agreement to receive and enforce repayment of its loan to the Company and to enforce payment of the Bonds, including all of the Issuer's rights to the First Mortgage Bond, and all of the Issuer's rights to moneys and securities in the Construction Fund, the Debt Service Fund and the Revenue Fund established by the Indenture, except for the Issuer's rights to certain fees and reimbursement for expenses, indemnification and notice thereunder and rights relating to amendments of and notices under the Financing Agreement, will be assigned to the Trustee as security for the Bonds pursuant to the Indenture;

(c) The Capital Projects are intended to constitute facilities for the furnishing of water for purposes of Section 142(a)(4) of the Internal Revenue Code of 1986, as amended (the "Code"), so that the interest on the Bonds will not be includable in gross income for federal income tax purposes under the Code and the Underwriter may offer the Bonds for sale without registration under the Securities Act of 1933, as amended (the "1933 Act") or qualification of the Indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"); and

(d) A Preliminary Official Statement dated September 21, 1999,

including the Appendices thereto and all documents incorporated therein by reference (the "Preliminary Official Statement"), has been supplied to the parties hereto, and a final Official Statement to be dated as of the date hereof, including the Appendices thereto and all documents incorporated therein by reference (the "Final Official Statement"), prepared for use in such offering will be supplied to the parties hereto as soon as it is available subject to Section 10 hereof. The Final Official Statement, as it may be amended or supplemented with the consent of the Issuer, the Underwriter and the Company, is hereinafter referred to as the "Official Statement."

2. Purchase, Sale and Closing. On the terms and conditions herein set forth, the Underwriter will buy from the Issuer, and the Issuer will sell to the Underwriter, all (but not less than all) of the Bonds at a purchase price equal to 98.30% of the principal amount thereof, plus interest accrued in the amount of \$25,000.00 to the Closing date. Payment shall be made in immediately available funds to the Trustee for the account of the Issuer. Closing (the "Closing") will be at the offices of Blank Rome Comisky & McCauley LLP, Philadelphia, Pennsylvania, at 10:00 a.m., Eastern Daylight Time, on October 7, 1999, or at such other date, time or place as may be agreed on by the parties hereto. The Bonds will be delivered in New York, New York in the form of one typewritten bond maturing June 1, 2029, registered in the name of Cede & Co., as nominee for The Depository Trust Company.

The Underwriter agrees to make a bona fide public offering of the Bonds at the initial offering prices or yields set forth in the Official Statement; provided, however, the Underwriter reserves the right (and the Issuer and the Company hereby expressly acknowledge such right): (i) to make concessions to dealers; (ii) to effect transactions that stabilize or maintain the market price of the Bonds above that which might otherwise prevail in the open market and to discontinue at any time such stabilizing transactions; and (iii) to change such initial offering prices, all as the Underwriter shall deem necessary in connection with the marketing of the Bonds.

3. Issuer's Representations. The Issuer makes the following representations, all of which shall survive Closing, that:

(a) The Issuer is a body politic and corporate, duly created and existing under the Constitution and laws of the Commonwealth of Pennsylvania (the "Commonwealth"), and has, and at the date of Closing will have, full legal right, power and authority to: (i) enter into this Bond Purchase Agreement; (ii) execute and deliver the Indenture, the Financing Agreement, this Bond Purchase Agreement and the Authority's tax certificate (collectively, the "Issuer Financing Documents") and the other various certificates executed by the Issuer in connection therewith; (iii) issue, sell and deliver the Bonds to the Underwriter as provided herein; and (iv) carry out and to consummate the transactions contemplated by the Issuer Financing Documents and the Official Statement to be carried out and/or consummated by it;

2

(b) The section entitled "THE AUTHORITY" contained in the Preliminary Official Statement as of its date, did not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading;

(c) The section entitled "THE AUTHORITY" contained in the Official Statement as of its date does not or will not, with respect to the Issuer, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading;

(d) The Issuer has complied, and will at the Closing be in compliance in all material respects, with the provisions of the Act;

(e) To the extent required by law, the Issuer has duly authorized and approved the Preliminary Official Statement and the Official Statement, and has duly authorized and approved the execution and delivery of, and the performance by the Issuer of the obligations on its part contained in the Issuer Financing Documents;

(f) To the best of the knowledge of the officer of the Issuer executing this Bond Purchase Agreement, the Issuer is not in material breach of

or in default under any applicable law or administrative regulation of the Commonwealth or the United States; and the execution and delivery of the Issuer Financing Documents, and compliance with the provisions of each thereof, will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree, loan agreement, note, resolution, agreement or other instrument to which the Issuer is a party or is otherwise subject;

(g) All approvals, consents and orders of any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to the Issuer's legal ability to issue the Bonds or to the performance by the Issuer of its obligations hereunder and under the Issuer Financing Documents have been obtained or will be obtained prior to the Closing;

(h) The Bonds, when issued, authenticated and delivered in accordance with the Indenture and sold to the Underwriter as provided herein, will be validly issued, and will be valid and binding limited obligations of the Issuer enforceable in accordance with their terms (except as an enforcement of remedies may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws or legal or equitable principles affecting the enforcement of creditors' rights ("Creditors' Rights Limitations"));

(i) The terms and provisions of the Issuer Financing Documents when executed and delivered by the respective parties thereto, will constitute the valid, legal and binding obligations of the Issuer enforceable in accordance with their respective terms (except as enforcement of remedies may be limited by Creditors' Rights Limitations);

3

(j) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or, to the knowledge of the Issuer, threatened against the Issuer, affecting the existence of the Issuer or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the revenues or assets of the Issuer pledged or to be pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Issuer Financing Documents or contesting in any way the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the power or authority of the Issuer with respect to the issuance of the Bonds or the execution and delivery of the Issuer Financing Documents, wherein an unfavorable decision, ruling or finding would affect in any way the validity or enforceability of the Issuer Financing Documents; and

(k) The net proceeds received from the Bonds and applied in accordance with the Indenture shall be used in accordance with the Act as described in the Official Statement.

4. Company's Representations. The Company makes the following representations, all of which will survive the Closing:

(a) The Company has not sustained since June 30, 1999 any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Official Statement, there have not been any material changes in the capital stock or long-term debt of the Company or any material adverse change, or a development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company, otherwise than as set forth or contemplated in the Official Statement;

(b) The Company was organized and subsists as a corporation under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement;

(c) The First Mortgage Bond has been duly authorized, and, when issued and delivered as contemplated by this Bond Purchase Agreement, will have been duly executed, authenticated, issued and delivered and will constitute a valid and legally binding obligation of the Company entitled to the benefits provided by the First Mortgage Indenture;

(d) The Original Indenture has been duly authorized, executed and delivered by the Company and the Mortgage Trustee, and the Thirty-Second Supplemental Indenture has been duly authorized. When the Thirty-Second Supplemental Indenture, in substantially the form approved by the Company, has been executed and delivered by the Company and the Mortgage Trustee and recorded as required by law, the First Mortgage Indenture (i) will constitute a valid and legally binding instrument enforceable in accordance with its terms except as enforceability may be limited by Creditors' Rights Limitations, and (ii) will constitute a direct, valid and enforceable first mortgage lien (except as enforceability of such lien may be limited by Creditors' Rights Limitations), upon all of the properties and assets of the Company (not heretofore released as provided for in the First Mortgage Indenture) specifically or generally described or referred to in the First Mortgage Indenture as being subject to the lien thereof (which properties and assets constitute substantially all of the Company's properties and assets other than securities), except for permitted liens under the First Mortgage Indenture, and will create a similar lien upon all properties and assets acquired by the Company after the execution and delivery of the Thirty-Second Supplemental Indenture and required to be subjected to the lien of the First Mortgage Indenture pursuant thereto when so acquired (which properties and assets will constitute substantially all of the Company's properties and assets subsequently acquired other than securities), except for permitted liens under the First Mortgage Indenture; the Original Indenture has been, and the Thirty-Second Supplemental Indenture will be duly filed, recorded or registered in each place in the Commonwealth in which such filing, recording or registration was or is required to protect and preserve the lien of the First Mortgage Indenture; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject to the lien of the First Mortgage Indenture, the mortgaged property or trust estate (as defined in the First Mortgage Indenture) have been duly obtained;

(e) In each of the following cases with such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title to all of its real property currently held in fee simple; good and marketable title to all of its other interests in real property (other than certain rights of way, easements, occupancy rights, riparian and flowage rights and real property interests of a similar nature); and good and marketable title to all personal property owned by it, in each case free and clear of all liens, encumbrances and defects except such as are described in the Official Statement, the lien of the First Mortgage Indenture, permitted liens under the First Mortgage Indenture or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions which are not material and do not interfere with the use made and proposed to be made of such property and buildings of the Company;

(f) In each of the following cases except for such exceptions which are not material and do not interfere with the conduct of the business of the Company, the Company has all licenses, franchises, permits, authorizations, rights, approvals, consents and orders of all governmental authorities or agencies necessary for the ownership or lease of the properties owned or leased by it and for the operation of the business carried on by it as described in the Official Statement, and all water rights, riparian rights, easements, rights of way and other similar interests and rights described or referred to in the First Mortgage Indenture necessary for the operation of the business carried on by it as described in the Official Statement; except as otherwise set forth in the Official Statement, all such licenses, franchises, permits, orders, authorizations, rights, approvals and consents are in full force and effect and contain no unduly burdensome provisions; except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or threatened that would result in a material modification, suspension or revocation thereof; and the Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations;

(g) The issue and sale of the Bonds; the issue and delivery of the First Mortgage Bond and the compliance by the Company with all of the provisions of the First Mortgage Bond and the First Mortgage Indenture; the execution, delivery and performance by the Company of the Thirty-Second Supplemental Indenture, the Financing Agreement, this Bond Purchase Agreement and the Continuing Disclosure Agreement will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance (other than the lien of the First Mortgage Indenture) upon any of the property or assets of the Company pursuant to the terms of any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject, nor will such action result in a violation of the provisions of the Articles of Incorporation, as amended, or the Bylaws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property; and no consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body (other than those already obtained) is required for the issue and sale of the Bonds; the issue and delivery of the First Mortgage Bond; the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Thirty-Second Supplemental Indenture, the First Mortgage Bond and the Continuing Disclosure Agreement; or the consummation by the Company of the other transactions contemplated by this Bond Purchase Agreement or the First Mortgage Indenture;

(h) The Pennsylvania Public Utility Commission by order has duly authorized the issuance and delivery of the First Mortgage Bond on terms not inconsistent with this Bond Purchase Agreement;

(i) The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Holding Company Act of 1935, as amended;

(j) There are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is subject, other than as set forth in the Official Statement and other than litigation incident to the kind of business conducted by the Company wherein an unfavorable ruling, decision or finding is likely that would have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(k) (i) The Capital Projects consist of either land or property of a character subject to depreciation for federal income tax purposes and will be used to furnish water that is or will be made available to members of the general public (including electric utility, industrial, agricultural, or commercial users); (ii) the rates for the furnishing or sale of the water have been established or approved by a State or political subdivision thereof, by an agency or instrumentality of the United States, or by a public service or public utility commission or other similar body of any State or political subdivision thereof; and (iii) all other information supplied by the Company with respect to the exclusion from gross income pursuant to Section 103 of the Code of the interest on the Bonds is correct and complete;

(l) The Company has not, within the immediately preceding ten years, defaulted in the payment of principal or interest on any of its bonds, notes or other securities, or any legally authorized obligation issued by it;

(m) The information with respect to the Company and the Capital Projects and the descriptions of the Bonds, the Indenture, the Financing Agreement, the First Mortgage Bond, the First Mortgage Indenture and the Continuing Disclosure Agreement contained in the Preliminary Official Statement and the Official Statement (including Appendix A and the information incorporated therein by reference) do not contain an untrue statement of a material fact or omit to state a material fact necessary to make such information and descriptions, in the light of the circumstances under which they were made, not misleading; and

(n) The Company will undertake, pursuant to the Continuing Disclosure Agreement dated as of October 1, 1999 to be entered into between the Company and the Trustee (the "Continuing Disclosure Agreement"), to provide annual reports and notices of certain material events in accordance with Rule 15c2-12 under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"). A description of this undertaking and the Continuing Disclosure Agreement is set forth in the Preliminary Official Statement and will also be set forth in the Final Official Statement.

5. Issuer's Covenants. The Issuer will:

(a) cooperate in qualifying the Bonds for offer and sale under the Blue Sky laws of states designated by the Underwriter, provided that the Issuer shall not be required to qualify to do business or consent to service of process in any state or jurisdiction other than the Commonwealth and the Issuer's out-of-pocket costs in respect thereof are paid by the Company or are otherwise provided for; and

(b) refrain from knowingly taking any action with regard to which the Issuer may exercise control that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds referred to under the caption "TAX MATTERS" in the Official Statement.

6. Company's Covenants. The Company agrees that it will:

(a) refrain from taking any action, or from permitting any action, with regard to which the Company may exercise control, to be taken, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Bonds;

(b) indemnify the Issuer, its members, directors, officers and employees and the Underwriter, its officers, directors, officials, employees and each person, if any, who controls the Underwriter within the meaning of Section 15 of the 1933 Act (collectively, "Indemnified Parties") against claims asserted against them in connection with the offering and sale of the Bonds (i) on the ground that the Preliminary Official Statement or the Official Statement (except for the information relating to the Issuer under the caption "THE AUTHORITY") contains an alleged untrue statement of material fact or an alleged omission to state any material fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made, or (ii) arising by virtue of the failure to register the Bonds under the 1933 Act, or to qualify the Indenture under the 1939 Act;

(c) indemnify and hold harmless the Issuer and its counsel and each person if any who controls (within the meaning of Section 20 of the Securities Exchange Act of 1934 or Section 15 of the Securities Act of 1933, as amended) the Issuer from and against all losses, claims, damages, liabilities and expenses, joint or several, to which the authority, such officer, agent, employee or controlling person may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or actions in respect thereof) arise out of or are based upon: (i) a breach of the Company's representations included in this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact pertaining to the Capital Projects or the Company set forth in the Official Statement, or any amendment or supplement thereto, or the Preliminary Official Statement, or (iii) the willful or negligent omission or alleged omission to state in the Official Statement or the Preliminary Official Statement a material fact required to be stated therein or necessary to make the statements therein pertaining to the Company or the Capital Projects not misleading.

(d) refrain from knowingly taking any action with regard to which the Company may exercise control that would result in the loss of the exclusion from gross income for federal income tax purposes of interest on the Bonds referred to under the caption "TAX MATTERS" in the Official Statement.

7

7. Underwriter's Covenants.

(a) By acceptance hereof the Underwriter agrees to indemnify and hold

harmless the Indemnified Parties against claims, losses, damages, liabilities and expenses asserted against them, or any of them, in connection with (i) the offering and sale of the Bonds on the grounds that the information under the caption "UNDERWRITING" contains an untrue statement of a material fact or omits to state any material fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made, or (ii) failure on the part of the Underwriter to deliver an Official Statement to any purchaser; and will reimburse any legal or other expenses reasonably incurred by an Indemnified Party in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have. The Underwriter shall not be liable for any settlement of any such action effected without its consent.

(b) The Underwriter will indemnify and hold harmless the Issuer and each director, officer and employee of the Issuer against any losses, claims, damages, liabilities or expenses, joint or several, to which the Issuer or each member, officer or employees of the Issuer may become subject, under federal laws or regulations or otherwise: (i) insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue or alleged untrue statement of any material fact contained in the Official Statement under the caption "UNDERWRITING," any amendment or supplement thereto, or the Preliminary official Statement or arise out of or are based upon the omission or the alleged omission to state therein a material fact necessary to make the statements under "UNDERWRITING" not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made to the Preliminary Official Statement or Official Statement in reliance upon and in conformity with written information furnished by the Underwriters specifically for use therein (it being understood that the Underwriters furnished only the information under "UNDERWRITING"); or (ii) failure on the part of the Underwriters to deliver an Official Statement to any purchasers; and will reimburse any legal or other expenses reasonably incurred by the Authority or each member, officer, or employee of the Issuer in connection with investigating or defending of any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability which the Underwriter may otherwise have. The Underwriter shall not be liable for any settlement of any such action effected without its consent.

8. Notice of Indemnification; Settlement. Promptly after receipt by an Indemnified Party of notice of the commencement of any action against an Indemnified Party hereunder in respect of which indemnity is to be sought against the Company or the Underwriter, as the case may be (the "Indemnifying Party"), such Indemnified Party will notify the Indemnifying Party in writing of such action and the Indemnifying Party may assume the defense thereof, including the employment of counsel and the payment of all expenses; but the omission so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability which it may have to any Indemnified Party otherwise than hereunder. The Indemnifying Party shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such action, the Indemnifying Party will indemnify and hold harmless any Indemnified Party from and against any loss or liability by reason of such settlement or judgment. The indemnity agreements contained in this Bond Purchase Agreement shall include reimbursement for expenses reasonably incurred by an Indemnified Party in investigating the claim and in defending it if the Indemnifying Party declines to assume the defense and shall survive delivery of the Bonds.

9. Equitable Contribution. If the indemnification provided for in Section 6(b) is unavailable to the Underwriter (or any controlling person thereof) in respect of any losses, claims, damages or liabilities referred to therein, then the Company shall, in lieu of indemnifying the Underwriter, contribute to the amount paid or payable by the Underwriter as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriter, respectively, from the offering of the Bonds. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then the Company shall contribute to such amount paid or payable by the Underwriter in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Underwriter, respectively, in

connection with the statements or omission which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefit received by the Company or the Underwriter shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting issuance costs and expenses other than underwriting fees and commissions) received by the Company, on the one hand, bear to the total underwriting fees and commissions received by the Underwriter, on the other hand. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact related to information supplied by the Company or the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 9. The amount paid or payable by the Underwriter as a result of the losses, claims, damages or liabilities referred to above in this Section 9 shall be deemed to include any legal or other expenses reasonably incurred by the Underwriter in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, the Underwriter shall not be required to contribute any amount in excess of the amount by which the total price at which the Bonds underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which the Underwriter has otherwise been required to pay by reason of such untrue or allegedly untrue statement or omission or alleged omission.

10. Official Statement; Public Offering.

(a) In order to enable the Underwriter to comply with Rule 15c2-12 (i) the Company has prepared or caused the preparation of the Preliminary Official Statement, which the Company and the Issuer (but only with respect to the information therein with respect to the Issuer under the headings "THE AUTHORITY" and "INTRODUCTORY STATEMENT") deem final and complete as of its date; (ii) the Company shall provide to the Underwriter sufficient copies of the Official Statement in sufficient time to accompany any confirmation that requires payment from any customer and in any event within seven business days after the date of this Bond Purchase Agreement; and (iii) the Company agrees to notify the Underwriter of any developments that would render the Official Statement misleading in any material respect during the period that the Official Statement is required to be delivered in connection with the sale of the Bonds and for a period of 25 days thereafter. The Issuer and the Company hereby authorize the use of the Preliminary Official Statement and the Official Statement by the Underwriter in connection with the offering of the Bonds.

9

(b) After the Closing, and until the Underwriter has informed the Issuer and the Company that the Underwriter has sold all the Bonds, the Issuer and the Company will not adopt or distribute any amendment of or supplement to the Official Statement, except with the prior written consent of the Underwriter; and if any event relating to or affecting the Issuer, the Company or the Bonds shall occur, the result of which shall make it necessary, in the reasonable opinion of the Underwriter, to amend or supplement the Official Statement in order to make it not misleading in the light of the circumstances existing at that time, the Company shall forthwith prepare, and the Company shall approve for distribution, a reasonable number of copies of an amendment of or supplement to the Official Statement, in form and substance satisfactory to the Underwriter, so that the Official Statement then will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances existing at that time, not misleading. The Issuer shall cooperate with the Company in the issuance and distribution of any such amendment or supplement.

(c) The Underwriter agrees to promptly provide upon closing a nationally recognized municipal securities information repository and the Municipal Securities Rulemaking Board ("MSRB") with a copy of the Official Statement for filing in accordance with Rule 15c2-12 and to inform the Issuer in writing as to (i) the date and place of such filing and (ii) the date of the end of the underwriting period.

11. Conditions of Underwriter's Obligations. The Underwriter's obligations

to purchase and pay for the Bonds and the Issuer's obligation to issue and deliver the Bonds are subject to fulfillment of the following conditions at or before Closing:

(a) The representations of the Issuer and the Company herein shall be true in all material respects on and as of the date of the Closing and shall be confirmed by appropriate certificates at Closing;

(b) Neither the Issuer nor the Company shall be in default in the performance of any of their respective covenants herein;

(c) The Underwriter shall have received:

(i) Opinions of Blank Rome Comisky & McCauley LLP, Bond Counsel, dated the date of Closing, in the forms attached as Exhibits A and B hereto, addressed to (or reliance letters delivered in respect of) the Issuer, the holders of the Bonds and the Underwriter;

(ii) An opinion Blank Rome Comisky & McCauley LLP, counsel for the Issuer, dated the date of Closing with respect to the matters set forth in Exhibit C hereto, addressed to the Underwriter;

(iii) Opinions of Dilworth Paxson LLP ("Company Counsel") and the Company's internal General Counsel, dated the date of Closing, in the forms attached as Exhibit D hereto, addressed to the Underwriter and the Issuer and, in the case of the opinion of Company Counsel, to Bond Counsel;

(iv) An opinion of Ballard Spahr Andrews & Ingersoll, LLP, counsel for the Underwriter, in form and substance satisfactory to the Underwriter;

10

(v) An opinion of counsel to Financial Guaranty Insurance Company (the "Bond Insurer") in form and substance satisfactory to the Underwriter, relating to the enforceability of the Municipal Bond New Issue Insurance Policy (the "Insurance Policy") and the information concerning the Bond Insurer in the Official Statement;

(vi) An agreed upon procedures letter dated the date of Closing, from KPMG Peat Marwick LLP, the Company's independent certified public accountants, with respect to the Official Statement, in form satisfactory to the Underwriter;

(vii) A certificate dated the date of Closing executed by the Chairman of the Issuer to the effect that:

(A) the representations, warranties and covenants of the Issuer contained herein, to the best of the knowledge of such Chairman, are true and correct in all material respects as of the date of Closing; and

(B) to the best of the knowledge of such Chairman, the Issuer has complied in all material respects with all agreements and satisfied in all material respects all of the conditions on its part to be performed or satisfied at or prior to the Closing;

(viii) A certificate dated the date of Closing executed by the chief financial officer of the Company to the effect that:

(A) the representations and warranties of the Company in this Bond Purchase Agreement are true and correct in all material respects as of the date of Closing;

(B) the Preliminary Official Statement and the Official Statement, as of their respective dates, insofar as they relate to the Company, do not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading; and

(C) no event affecting the Company occurred since the date of the Bond Purchase Agreement which is required to be disclosed in the Official Statement in order to make the statements and information therein not misleading

in any material respect;

(ix) Two executed copies of the Indenture, the Financing Agreement, the Bond Purchase Agreement, the Thirty-Second Supplemental Indenture and the Continuing Disclosure Agreement;

(x) Two copies of the Articles of Incorporation and By-laws of the Company, as amended to the date of Closing, and of the resolutions of the Board of Directors of the Company authorizing and approving the execution and delivery of this Bond Purchase Agreement, the Financing Agreement, the First Mortgage Bond, the Thirty-Second Supplemental Indenture, the Continuing Disclosure Agreement and the incurrence of indebtedness with respect thereto and all transactions described in the Official Statement and contemplated by this Bond Purchase Agreement, all certified by its Secretary or Assistant Secretary;

(xi) Two copies of the Resolution;

11

(xii) A letter from KPMG Peat Marwick LLP dated the date of Closing and addressed to the Underwriter consenting to the use of the financial statements prepared by such firm and all references to such firm contained in the Preliminary Official Statement and the Official Statement;

(xiii) Evidence of the issuance of the Insurance Policy by the Bond Insurer which unconditionally and irrevocably guarantees the payment when due of the principal of and interest on the Bonds;

(xiv) Evidence satisfactory to the Underwriter of a rating of "AAA" assigned by Standard & Poor's Ratings Services, and that such rating is in full force and effect as of the date of Closing;

(xv) Evidence satisfactory to Bond Counsel and the Underwriter of the receipt of a Preliminary Allocation Request relating to the Bonds from the Pennsylvania Department of Community and Economic Development and a Securities Certificate relating to the Bonds from the Pennsylvania Public Utility Commission; and

(xvi) Such additional documentation as the Underwriter or its counsel or Bond Counsel may reasonably request to evidence compliance with applicable law and the validity of the Bonds, the Financing Agreement, the Indenture, this Bond Purchase Agreement, the First Mortgage Indenture, the First Mortgage Bond and the Continuing Disclosure Agreement, and to evidence that the interest on the Bonds is not includable in gross income under the Code and the status of the offering under the 1933 Act and the 1939 Act.

(d) At Closing there shall not have been any material adverse change in the financial condition of the Company or any adverse development concerning the business or assets of the Company which would result in a material adverse change in the prospective financial condition or results of operations of the Company from that described in the Official Statement which, in the reasonable judgment of the Underwriter, makes it inadvisable to proceed with the sale of the Bonds; and the Underwriter shall have received certificates of the Company certifying that no such material adverse change has occurred or, if such a change has occurred, full information with respect thereto; and

(e) The Underwriter shall deliver at Closing a certificate in form acceptable to Bond Counsel to the effect that the Underwriter has sold to the public (excluding bond houses and brokers) a substantial amount of the Bonds at initial offering prices no higher than, or yields no lower than, those shown on the cover page of the Official Statement and that such certificate may be relied upon for purposes of determining compliance with Section 148 of the Code.

12. Events Permitting the Underwriter to Terminate. The Underwriter may terminate its obligation to purchase the Bonds at any time before Closing if any of the following occurs:

(a) A legislative, executive or regulatory action or proposed action or a court decision which, in the judgment of the Underwriter, casts sufficient doubt on the legality of, or the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds so as to materially impair the marketability or materially lower the market price thereof; or

(b) Any action by the Securities and Exchange Commission or a court which would require registration of the Bonds or the First Mortgage Bond under the 1933 Act or qualification of the Indenture under the 1939 Act; or

(c) Any general suspension of trading in securities on the New York Stock Exchange or the establishment, by the New York Stock Exchange, by the Securities and Exchange Commission, by any federal or state agency, or by the decision of any court, of any limitation on prices for such trading, or any outbreak of hostilities or other national or international calamity or crisis, or any material escalation in any such hostilities, calamity or crisis, the effect of which on the financial markets of the United States shall be such as to materially impair the marketability or materially lower the market price of the Bonds; or

(d) Any event or condition occurs or arises after the date hereof which, in the reasonable judgment of the Underwriter, renders untrue or incorrect, in any material respect as of the time to which the same purports to relate, the information contained in the Official Statement, or which requires that information not reflected in the Official Statement or Appendices thereto should be reflected therein in order to make the statements and information contained therein not misleading in any material respect as of such time; provided that the Issuer, the Company and the Underwriter will use their best efforts to amend or supplement the Official Statement to reflect, to the satisfaction of the Underwriter, such changes in or additions to the information contained in the Official Statement; or

(e) pending or threatened litigation affecting or arising out of the ownership of the Capital Projects or any other facilities of the Company or the issuance of the Bonds which in the reasonable judgment of the Underwriter would materially impair the marketability or materially lower the market price of the Bonds; or

(f) Sufficient quantities of the Official Statement are not delivered to the Underwriter in a timely manner as required by Section 10 hereof.

If the Underwriter terminates its obligation to purchase the Bonds because any of the conditions specified in Section 11 or this Section 12 shall not have been fulfilled at or before the Closing, such termination shall not result in any liability on the part of the Issuer, the Underwriter, or, except for the payment of such costs of issuance described in Section 13 hereof which are due and payable, the Company.

13 Expenses. All expenses and costs of the authorization, issuance, sale and delivery of the Bonds including, without limitation, the preparation of and furnishing to the Underwriter of the Preliminary Official Statement and the Official Statement, the preparation and execution of the Bonds, the Financing Agreement, the Indenture, the First Mortgage Bond, the Thirty-Second Supplemental Indenture and this Bond Purchase Agreement, the Insurance Policy premium, rating agency fees, the issuance and closing fees of the Issuer, the fees and disbursements of counsel to the Issuer, the fees and disbursements of Bond Counsel, the fees and disbursements of counsel to the Underwriter and the expenses incurred in connection with qualifying the Bonds for sale under the securities laws of various jurisdictions and preparing Blue Sky and legal investment memoranda shall be paid by the Company as provided in this Bond Purchase Agreement. The Issuer shall bear no out-of-pocket expense in connection with the transactions contemplated by this Bond Purchase Agreement. The Underwriter will pay all other expenses of the Underwriter in connection with the public offering of the Bonds.

14 Execution in Counterparts. This Bond Purchase Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Bond Purchase Agreement by signing any such counterpart.

15 Notices and Other Actions. All notices, requests, demands and formal

actions hereunder will be in writing mailed, telegraphed or delivered to:

The Underwriter:

Commerce Capital Markets, Inc.
One Commerce Square
2005 Market Street, Suite 200
Philadelphia, Pennsylvania 19103

Attention: George C. Werner, III
Managing Director

The Company:

Philadelphia Suburban Water Company
762 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010

Attention: Kathy Pape
Vice President and Treasurer

The Issuer:

Delaware County Industrial Development
Authority
200 East State Street, Suite 205
Media, Pennsylvania 19063

Attention: J. Patrick Killian
Executive Director

16 Governing Law. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania and may not be assigned by the Issuer, the Company or the Underwriter.

17 Successors. This Bond Purchase Agreement will inure to the benefit of and be binding upon the parties and their respective successors and, as to Sections 6 and 7 above, the directors, officers, employees and agents of the Issuer, and will not confer any rights upon any other person. The term "successor" shall not include any holder of any Bonds merely by virtue of such holding.

14

18. Limitations on Liability. No personal recourse shall be had for any claim based on this Bond Purchase Agreement or the Bonds against any member, officer, agent to employee, past, present or future, of the Issuer or any successor body as such, either directly or through the Issuer or any successor body, under any constitutional provision, statute, or rule of law or by enforcement of any assessment or penalty or otherwise. Notwithstanding any provision or obligation to the contrary in this Bond Purchase Agreement, the liability of the Issuer for payments of any kind, nature or description provided for herein or in any other document executed pursuant hereto shall be limited to the revenues derived by the Issuer from the Financing Agreement.

15

IN WITNESS WHEREOF, the Issuer, the Company and the Underwriter have caused their duly authorized representatives to execute and deliver this Bond Purchase Agreement as of the date first written above.

DELAWARE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: /s/ Marvin E. Berger

(Vice) Chairman

PHILADELPHIA SUBURBAN WATER COMPANY

By: /s/ Kathy L. Pape

Kathy Pape
Vice President and Treasurer

COMMERCE CAPITAL MARKETS, INC.

By: /s/ George C. Werner

George C. Werner
Managing Director

Schedule I

Terms of Bonds

Principal Amount: \$25,000,000
Dated Date: October 1, 1999
Maturity Date: June 1, 2029
Interest Payment Dates: June 1 and December 1, commencing June 1, 2000
Rate of Interest: 6.00%
Underwriter's Discount: \$425,000
Redemption provisions:

The Bonds are subject to redemption as follows:

Optional Redemption. The Bonds are subject to redemption prior to maturity at the option of the Issuer, upon direction of the Company, on or after June 1, 2009, as a whole or in part at any time, at the redemption prices (stated as a percentage of the principal amount) set forth below, plus interest accrued to the date fixed for redemption.

Optional Redemption Periods (inclusive)	Redemption Prices
-----	-----
June 1, 2009 through May 31, 2010	101%
June 1, 2010 and thereafter	100

Extraordinary Optional Redemption. The Bonds are subject to redemption at the option of the Company as a whole at any time prior to maturity at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date upon the occurrence of the following events:

(a) the Capital Projects are partially or totally damaged or destroyed by fire or other casualty and the Company determines within sixty (60) days after such damage or destruction that satisfactory restoration of the Capital Projects may not be made; or

(b) all or substantially all of the Capital Projects are taken or condemned as a whole by a public body in the exercise of its power of eminent domain, or any portion of the Capital Projects are so taken or condemned and the Company determines that the remaining portion of the Capital Projects is unsuitable for the Company's business; or

(c) if changes in the economic availability or raw materials,

operating supplies, labor or facilities necessary for the operation of the Capital Projects or the water supply and distribution system of which they are part as an efficient facility or technological or other changes shall have occurred which, in the Company's opinion, render the Facilities or such system uneconomical for their intended purposes.

Schedule I-1

Excess Funds Redemption. The Bonds are subject to redemption as a whole or in part at any time prior to maturity at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date to the extent that excess funds on deposit in the Construction Fund not needed to pay Project Costs are transferred by the Trustee to the Revenue Fund.

Schedule I-2

EXHIBIT A

FORM OF OPINION OF BLANK ROME COMISKY & MCCAULEY LLP

A-1

EXHIBIT B

Points to be covered in Supplemental Opinion of Bond Counsel

(Terms defined in Bond Purchase Agreement
are used here with same meanings)

1 The Bonds are not subject to the registration requirements of the 1933 Act and the Indenture is not required to be qualified under the 1939 Act.

2 The Bond Purchase Agreement has been duly authorized, executed and delivered by the Issuer and constitutes the valid and binding obligation of the Issuer enforceable in accordance with its terms, subject only to applicable bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights heretofore or hereafter enacted and to general equity principles.

3 The execution and delivery of the Official Statement has been authorized by the Issuer.

4 The information and statements contained in the Official Statement under the sections captioned "THE BONDS", "SECURITY FOR THE BONDS" and in APPENDIX C thereto (insofar as Appendix C purports to summarize provisions of the Bonds, the Indenture and the Financing Agreement) are reasonable summaries of the provisions of the Bonds and the documents purported to be summarized therein, and matters set forth in the section captioned "TAX EXEMPTION" and APPENDIX D thereto accurately reflects our opinion as to such matters and the tax exempt nature of the interest on the Bonds.

5 We have not verified and are not passing upon and do not assume any responsibility for the accuracy, completeness or reasonableness of the statements contained in the Official Statement, except for the determinations with respect to the sections referred to in numbered paragraph 4 above, and without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, nothing has come to the attention of Bond Counsel which would lead it to believe that the Official Statement (except for financial, tabular, demographic or statistical

data therein and the information contained under the headings "THE BONDS?Book-Entry Only System," "BOND INSURANCE," "ESTIMATED SOURCES AND USES OF FUNDS," "BONDHOLDERS' RISKS," and "ABSENCE OF MATERIAL LITIGATION" and in APPENDIX A, APPENDIX B and APPENDIX E of the Official Statement, as to which bond counsel need not express a view) as of its date and as of the date of Closing, contains any untrue statement of a material fact or omits to state any material fact that is required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

B-1

EXHIBIT C

Points to be covered in Opinion of Blank Rome Comisky & McCauley LLP
Counsel for the Issuer

(Terms defined in Bond Purchase Agreement
are used here with same meanings)

1 The Issuer is a body corporate and politic constituting an instrumentality of the Commonwealth and is duly created and existing pursuant to the Act.

2 The Issuer has by proper action duly authorized the execution and issuance of the Bonds and the execution and delivery of the Issuer Financing Documents. The Bonds have been duly and validly issued by the Issuer and the Issuer Financing Documents have each been duly and validly executed and delivered by the Issuer and the Bonds and each of such documents are valid and binding agreements of the Issuer, enforceable against the Issuer in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws or legal or equitable principles affecting the enforcement of creditor's rights.

3 To the knowledge of such counsel, the execution and the issuance by the Issuer of the Bonds, the execution and delivery by the Issuer of the Issuer Financing Documents and performance by the Issuer of the Issuer's obligations under the Bonds and the Issuer's Financing Documents, do not conflict with or constitute on a part of the Issuer a violation of, breach of or default under any existing constitutional provision or statute of the Commonwealth, or, to our knowledge without having undertaken any independent investigation, any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Issuer is a party or by which the Issuer is bound, or, to our knowledge, any order, rule or regulation of any court, governmental agency or body of the Commonwealth having jurisdiction over the Issuer or any of its activities or property.

4 To the knowledge of such counsel, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, public board or body, pending or threatened against the Issuer, wherein an unfavorable decision, ruling or finding would materially and adversely affect the transactions contemplated by the Bonds.

5 The Issuer has approved the distribution of the Preliminary Official Statement and the Official Statement by the Underwriter in connection with the sale of the Bonds.

6 The information contained in the Preliminary Official Statement and the Official Statement under the heading "THE AUTHORITY" has been reviewed by us and nothing has come to our attention which would lead us to believe that such information contains any untrue statement of a material fact or omits to state a material fact which is required to be stated therein or which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

C-1

EXHIBIT D

Points to be covered in Opinions of
Dilworth Paxson LLP
and Company Counsel

(Terms defined in Bond Purchase Agreement
are used here with same meanings)

1 The Company was organized and subsists under the laws of the Commonwealth, with power (corporate and other) to own its properties and conduct its business as described in the Official Statement.

2 The Company has the corporate power and authority to enter into and perform the Bond Purchase Agreement, the Financing Agreement and the Continuing Disclosure Agreement. The execution, delivery and performance by the Company of the Financing Agreement, the Bond Purchase Agreement and the Continuing Disclosure Agreement have been duly authorized by all requisite corporate action.

3 The Bond Purchase Agreement has been duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company. The Financing Agreement and the Continuing Disclosure Agreement, when executed and delivered by the Company, will constitute legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights in general.

4 The execution and delivery of the Bond Purchase Agreement, the Financing Agreement and the Continuing Disclosure Agreement and the performance by the Company of its obligations thereunder will not violate, conflict with or result in a breach of or constitute a default under the Articles of Incorporation or Bylaws of the Company or any agreement, instrument, order, writ, judgment or decree to which the Company is a party or to which it or any of its property is subject.

5 The Company has obtained all approvals required in connection with the execution and delivery of, and performance by the Company of its obligations under, the Bond Purchase Agreement, the Financing Agreement and the Continuing Disclosure Agreement.

6 The First Mortgage Bond have been duly authorized, executed, authenticated, issued and delivered and constitute valid and legally binding obligations of the Company entitled to the benefits provided by the First Mortgage Indenture.

7 The First Mortgage Bonds are not subject to the registration requirements of the 1933 Act.

D-1

8 The Original Indenture has been duly authorized, executed and delivered by the Company and the Trustee and the Thirty-Second Supplemental Indenture has been duly authorized, executed and delivered by the Company and the Trustee and recorded as required by law. The First Mortgage Indenture (i) constitutes a valid and legally binding instrument enforceable in accordance with its terms except as enforceability may be limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights, and (ii) constitutes a direct, valid and enforceable first mortgage lien (except as enforceability of such lien may be limited by bankruptcy, insolvency, reorganization or other laws affecting the enforcement of creditors' rights) upon all of the properties and assets of the Company (not heretofore released as provided for in the First Mortgage Indenture) specifically or generally described or referred to in the First Mortgage Indenture as being subject to the lien thereof (which properties and assets constitute substantially all of the Company's properties and assets other than securities), except for permitted liens under the First Mortgage Indenture, and will create a similar lien upon all properties and assets acquired by the Company after the execution and delivery of the Thirty-Second Supplemental Indenture and required to be subjected to the lien of the First Mortgage Indenture pursuant thereto when so acquired (which properties and assets will constitute substantially all of the Company's properties and assets subsequently

acquired other than securities), except for permitted liens under the First Mortgage Indenture; the First Mortgage Indenture has been duly filed, recorded or registered in each place in the Commonwealth in which such filing, recording or registration was or is required to protect and preserve the lien of the First Mortgage Indenture; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject to the lien of the First Mortgage Indenture the mortgaged property or trust estate (as defined in the First Mortgage Indenture) have been duly obtained.

9 In each of the following cases with such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has good and marketable title in fee simple to all of its real property; good and marketable title to all of its other interests in real property (other than to certain rights of way, easements, occupancy rights, riparian and flowage rights and real property interest of a similar nature); and good and marketable title to all personal property owned by it, in each case free and clear of all liens, encumbrances and defects except such as are described in the Official Statement, the lien of the First Mortgage Indenture, permitted liens under the First Mortgage Indenture or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

D-2

10 In each of the following cases with such exceptions as are not material and do not interfere with the conduct of the business of the Company, the Company has all licenses, franchises, indeterminate permits, other permits, authorizations, rights, approvals, consents and order of all governmental authorities or agencies necessary for the ownership or lease of the properties owned or leased by it and for the operation of the business carried on by it as described in the Official Statement, and all water rights, riparian rights, easements, rights of way and other similar interests and rights described or referred to in the First Mortgage Indenture necessary for the operation of the business carried on by it as described in the Official Statement; except as otherwise set forth in the Official Statement, all such licenses, franchises, indeterminate permits, other permits, orders, authorizations, rights, approvals and consents are in full force and effect and contain no unduly burdensome provisions; to the best of such counsel's knowledge, except as otherwise set forth in the Official Statement, there are no legal or governmental proceedings pending or threatened that would result in a material modification, suspension or revocation thereof; and the Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations.

11 The issue and sale of the Bonds; the issue and delivery of the First Mortgage Bond and the compliance by the Company with all of the provisions of the First Mortgage Bond and the First Mortgage Indenture; the execution, delivery and performance by the Company of the Thirty-Second Supplemental Indenture, the Financing Agreement, this Bond Purchase Agreement and the Continuing Disclosure Agreement will not conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, or result in the creation or imposition of any lien, charge or encumbrance (other than the lien of the First Mortgage Indenture) upon any of the property or assets of the Company pursuant to the terms of, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company is a party or by which the Company is bound or to which any of the property or assets of the Company is subject, nor will such action result in a violation of the provisions of the Articles of Incorporation, as amended, or the Bylaws of the Company or any statute or any court order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its property; and no consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body not already obtained is required for the issue and sale of the Bonds; the issue and delivery of the First Mortgage Bond; the execution, delivery and performance of this Bond Purchase Agreement, the Financing Agreement, the Thirty-Second Supplemental Indenture, the First Mortgage Bond and the Continuing Disclosure Agreement; or the consummation of the other transactions contemplated by this Bond Purchase Financing Agreement or the First Mortgage Indenture.

12 The Company is not a holding company, a registered holding company or an affiliate of a registered holding company within the meaning of the Public Utility Company Holding Act of 1935, as amended.

13 There are no legal or governmental proceedings pending to which the Company is a party or of which any property of the Company is the subject, other than as set forth in the Official Statement and other than litigation incident to the kind of business conducted by the Company which, if determined adversely to the Company, would not have a material adverse effect on the financial position, stockholders' equity or results of operations of the Company.

14 Such counsel shall also state that it has no reason to believe that the information with respect to the Company and the Capital Projects and the descriptions of the First Mortgage Bond and the First Mortgage Indenture contained in the Official Statement (including Appendix A and the information incorporated therein by reference) contain any untrue statement of a material fact or omit to state a material fact which is required to be stated therein or which is necessary to make such information and descriptions, in the light of the circumstances under which they were made, not misleading in any material respect.

CONSTRUCTION AND FINANCING
AGREEMENT

between

DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

PHILADELPHIA SUBURBAN WATER COMPANY

Dated as of October 1, 1999

TABLE OF CONTENTS

ARTICLE I
DEFINITIONS

SECTION 1.01. Definitions.....3

ARTICLE II
REPRESENTATIONS AND FINDINGS

SECTION 2.01. Representations and Warranties of the Authority.....7
SECTION 2.02. Representation and Warranties of the Company.....7
SECTION 2.03. Findings of the Authority.....8

ARTICLE III
COMPLETION OF THE FACILITIES; ISSUANCE OF THE BONDS

SECTION 3.01. Portions of Project Completed.....9
SECTION 3.02. Acquisition, Etc., of the Facilities; Completion.....9
SECTION 3.03. Issuance of Bonds.....9
SECTION 3.04. Payments From Construction Fund.....9
SECTION 3.05. Requisitions.....10
SECTION 3.06. Plans and Specifications.....10
SECTION 3.07. Completion of Facilities.....10
SECTION 3.08. Company to Pay Additional Amounts If Required.....10
SECTION 3.09. Contractor Defaults; Company Proceedings.....11
SECTION 3.10. Investment of Amounts in the Construction Fund.....11

ARTICLE IV
LOAN AND OTHER AMOUNTS

SECTION 4.01. Loan by Authority to Company.....12
SECTION 4.02. Repayment of Loan and Other Amounts.....12
SECTION 4.03. Security For Payment.....13

SECTION 4.04. Assignment

to Trustee.....13

SECTION 4.05. Operation and Maintenance.....14

SECTION 4.06. Insurance.....14

SECTION 4.07. Liens.....14

SECTION 4.08. Facilities Used For Purpose of the Act.....15

SECTION 4.09. Payment of Certain Costs.....15

SECTION 4.10. Obligation to Make Payments Absolute.....15

ARTICLE V

SPECIAL COVENANTS

SECTION 5.01. No Warranty.....16

SECTION 5.02. Company to Maintain Corporate Existence, Etc.....16

SECTION 5.03. Operation of Facilities; Maintenance of Licenses
and Permits.....16

SECTION 5.04. Additional Permits.....16

SECTION 5.05. Authority to Maintain Corporate Existence, Etc.....17

SECTION 5.06. Compliance With Continuing Disclosure Agreement.....17

SECTION 5.07. Certain Tax Covenants.....17

ARTICLE VI

ASSIGNMENT, LEASING AND SALES

SECTION 6.01. Assignment, Lease and Sale of Facilities.....19

SECTION 6.02. Assignment of Rights Under Agreement.....20

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. Events of Default.....21

SECTION 7.02. Remedies.....22

SECTION 7.03. Remedies Not Exclusive.....23

SECTION 7.04. Reimbursement of Fees and Expenses.....23

SECTION 7.05. Waivers of Breaches.....23

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Termination.....25

SECTION 8.02. Notices.....25

SECTION 8.03. Benefit of Agreement.....26

SECTION 8.04. Amendments.....26

SECTION 8.05. Counterparts.....26

SECTION 8.06. Invalidity of Certain Clauses.....26

SECTION 8.07. Governing Law.....27

SECTION 8.08. Indemnification.....27

SECTION 8.09. Limitation of Rights Against Authority.....29

SECTION 8.10. Limitation of Recourse Against Authority.....30

EXHIBIT A Description of the Facilities.....33

CONSTRUCTION AND FINANCING AGREEMENT

THIS CONSTRUCTION AND FINANCING AGREEMENT, dated as of October 1, 1999, by and between the DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a body corporate and politic organized and existing under and by virtue of the laws of the Commonwealth of Pennsylvania ("Authority"), and PHILADELPHIA SUBURBAN WATER COMPANY, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania ("Company").

WITNESSETH:

WHEREAS, the Authority was organized pursuant to the Economic Development Financing Law of the Commonwealth of Pennsylvania, Act of August 23, 1967, P.L. 251, as amended ("Act"), which Act declares it to be the policy of the Commonwealth of Pennsylvania ("Commonwealth") to promote the health, safety, morals, employment, business opportunities and general welfare of the people thereof by providing for the creation of industrial and commercial development authorities which shall exist and operate as public instrumentalities of the Commonwealth for the public purpose of alleviating unemployment, maintaining employment at a high level, eliminating and preventing blight and eliminating or reducing air and water pollution, and creating and developing business opportunities by the construction, improvement, rehabilitation, revitalization and financing of industrial, commercial, manufacturing and research and

development enterprises; and

WHEREAS, the Act declares that every authority incorporated under it shall be for the purpose of acquiring, holding, constructing, improving, maintaining, owning, financing and leasing, as lessor or as lessee, among other things, facilities for the furnishing of water; and

WHEREAS, the Company is engaged primarily in the activity, under the regulatory control of the Pennsylvania Public Utility Commission, of furnishing water available on reasonable demand to members of the general public; and

WHEREAS, the Authority adopted resolutions on May 11, 1998 and May 19, 1999 providing for the issuance and sale by the Authority of its revenue bonds to provide funds for the costs of (i) the acquisition, construction, installation and equipping of the Facilities (hereinafter defined) and (ii) the costs of issuance relating thereto (collectively "Project"): and

WHEREAS, in connection with the issuance by the Authority of its revenue bonds to provide funds for the cost of the Facilities, the Company is to enter into this Construction and Financing Agreement ("Agreement") under which the Authority agrees to loan funds to the Company for the construction and installation of the Facilities and the Company agrees to pay to the Authority, in repayment of the loan, amounts sufficient to amortize such revenue bonds; and

WHEREAS, the Company has commenced the acquisition, construction, installation and equipping of certain of the Facilities; and

WHEREAS, the Company now desires the Authority to proceed with the issuance and sale of its revenue bonds to provide the funds to pay the cost of the Facilities; and

WHEREAS, the Authority, by due corporate action, has authorized the issuance and sale of up to \$25,000,000 aggregate principal amount of its Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1999 ("1999 Bonds" or "Bonds"), the proceeds of which shall be applied to pay and to reimburse the Company for its payment of the costs of acquiring, constructing, installing and equipping the Facilities; and

WHEREAS, the 1999 Bonds are to be issued under and secured by a Trust Indenture ("Indenture"), dated as of October 1, 1999, between the Authority and Chase Manhattan Trust Company, National Association, a national banking association organized and existing under the laws of the United States of America and having a corporate trust office and place of business in Philadelphia, Pennsylvania, as successor trustee ("Trustee"); and

WHEREAS, the proceedings to be undertaken by the Authority in respect of the acquisition, construction, installation and equipping of the Facilities and the financing thereof have been approved by the Secretary of the Department of Community and Economic Development of the Commonwealth of Pennsylvania,

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby and in consideration of the mutual covenant hereinafter contained, DO HEREBY AGREE as follows:

-2-

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. Terms defined in the Preambles hereof shall have the meanings ascribed thereto in such Preambles. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

For all purposes of this Agreement, the terms defined in this Article I shall have the meanings herein specified, unless the context clearly otherwise requires:

"Agreement" or "Financing Agreement" shall mean this Construction and Financing Agreement dated as of October 1, 1999, between the Authority and the

Company, and any and all modifications, alterations, amendments and supplements thereto.

"Authorized Company Representative" shall mean any Person or Persons at the time designated to act as such on behalf of the Company by written certificate furnished to the Authority and the Trustee containing the specimen signature of such Person and signed on behalf of the Company by its President, any Vice President, Secretary or Assistant Secretary, or Treasurer or Assistant Treasurer. An Authorized Company Representative may be an employee of the Company.

"Completion Date" shall mean the date of completion of acquisition, construction, installation and equipping of the Facilities, as that date shall be certified pursuant to Section 3.07 hereof.

"Construction Fund" shall mean the fund so entitled created under Section 4.01 of the Indenture.

"Construction Period" shall mean the period between the beginning of the construction of the Facilities or the date on which the 1999 Bonds are first delivered to the initial purchasers thereof, whichever is earlier, and the Completion Date.

"Continuing Disclosure Agreement" shall mean that certain Continuing Disclosure Agreement between the Company and the Trustee dated the date of issuance of the Bonds, as it may be amended from time to time in accordance with the terms thereof.

-3-

"Cost of Construction" in respect of the Facilities shall mean and be deemed to include all items within the definition of "cost" contained in the Act including but not limited to

(a) obligations of the Authority and the Company incurred for labor, materials and other expenses and to contractors, builders and material men in connection with the acquisition, construction, installation and equipping of the Facilities;

(b) the cost of contract bonds and of insurance of all kinds that may be deemed by the Company to be desirable or necessary during the course of acquisition, construction, installation and equipping of the Facilities which is not paid by the contractor or contractors or otherwise provided for;

(c) the expenses of the Company not otherwise provided for, for engineering, including test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, and for supervising construction, as well as for the performance of all other duties required or reasonably necessary for the proper completion of the Facilities;

(d) legal, accounting, financial, advertising, recording and printing expenses, the service fee of the Authority, compensation and expenses of the Trustee, and all other fees and expenses incurred in connection with the issuance of the 1999 Bonds;

(e) interest, not otherwise provide for, accruing upon the 1999 Bonds until completion of the Facility;

(f) all other costs which the Authority and the Company shall be required to pay under the terms of any contract or contracts for the acquisition, construction, installation and equipping of the Facilities;

(g) all other costs, to the extent not enumerated above, within the definition of "Cost" under the Act; and

(h) any sums required to reimburse the Authority and the Company for advances made by them for any of the above items, or for any other costs incurred and for work done by them which are properly chargeable to the Facilities.

-4-

"Counsel" shall mean an attorney or firm of attorneys at law (who may

be employed by or counsel to the Authority or the Company) not unsatisfactory to the Trustee.

"Debt Service Fund" shall mean the fund created under Section 5.03 of the Indenture.

"Facilities" shall mean the facilities for the furnishing of water in the counties of Bucks, Chester, Delaware and Montgomery which are to be acquired, constructed, installed and equipped and to be financed under this Agreement, less any deletions therefrom and together with any additions, improvements and modification thereto and substitutions therefor made in accordance with the provisions of this Agreement, as more fully described in Exhibit A hereto.

"Final Determination or Taxability" shall mean, with respect to the Bonds under consideration, a determination, in a final administrative proceeding before the Internal Revenue Service (including, without limiting the generality of the foregoing, an examination of the federal income tax return of any Bondholder) or a court of competent jurisdiction that has made a determination, decision, judgment or decree, or has taken any other official action, to the effect that interest on the Bonds has become includable in the gross income of Bondholders for federal income tax purposes, and such action is no longer subject to appeal or other contest before the Internal Revenue Service or the same or another court of competent jurisdiction; for this purpose, an action shall be considered no longer subject to appeal or other contest when there has been filed with the Trustee a Certified Resolution of the Company that the Company will not appeal or otherwise contest such action or when the Trustee has determined that such action is not being appealed or otherwise contested in good faith; provided that no Bondholder shall have any duty or obligation to appeal or otherwise contest any determination that interest on such Bonds has become includable in the gross income of such Bondholder for Federal income tax purposes.

"First Mortgage Bond" shall mean the bonds designated "First Mortgage Bond, 6% Series due 2029", due June 1, 2029, in the principal amount of \$25,000,000, issued by the Company and outstanding under the Mortgage Indenture.

"Loan" shall mean the financing provided by the Authority to the Company pursuant to Section 4.01 hereof to provide funds for and toward the Costs of Construction of the Facilities.

-5-

"Loan Repayments" shall mean the payments to be made by the Company to the Authority pursuant to Section 4.02(a) hereof.

"Mortgage Indenture" shall mean the Indenture of Mortgage dated as of January 1, 1941 from the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities (now Chase Manhattan Trust Company, National Association), as successor mortgage trustee, as heretofore and hereafter supplemented and amended.

"Plans and Specifications" shall mean the plans and specifications prepared for the Facilities, duly certified by an Authorized Company Representative and on file at the principal office of the Company in Bryn Mawr, Pennsylvania, as the same may be revised from time to time prior to the Completion Date in accordance with Section 3.06 of this Agreement.

"Redemption Price" shall mean the principal amount of the Bonds subject to redemption plus any premium applicable thereto.

"Tax Compliance Agreement" shall have the meaning set forth in the Indenture.

-6-

ARTICLE II

REPRESENTATIONS AND FINDINGS

SECTION 2.01. Representations and Warranties of the Authority. The Authority makes the following representations as the basis for the undertakings on the part of the Company herein contained:

(a) The Authority is a public instrumentality of the Commonwealth and a public body corporate and politic organized and existing under and pursuant to the Act;

(b) The Authority has power to enter into this Agreement and to perform and observe the agreements and covenants on its part contained herein; and by proper corporate action has duly authorized the execution and delivery hereof; and the execution and delivery of this Agreement by the Authority and its performance of its obligations hereunder, to the best of its knowledge, do not and will not violate or constitute a default under the Authority's Articles of Incorporation or bylaws or any agreement, indenture, mortgage, lease, note or other obligation or instrument or order or regulation of any court or administrative agency binding upon the Authority;

(c) Under existing statutes and decisions no taxes on income or profits are imposed on the Authority; and

(d) As required by the Act, the Department of Community and Economic Development has approved as of July 14, 1999, the proceedings to be undertaken in respect of the issuance and sale of the 1999 Bonds and the construction of the Facilities.

SECTION 2.02. Representation and Warranties of the Company. The Company makes the following representations as the basis for the undertakings on the part of the Authority herein contained:

-7-

(a) The Company is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth, and has all required corporate power to enter into this Agreement and to perform and observe the agreements and covenants on its part contained herein; the Company by proper corporate action has duly authorized the execution and delivery of this Agreement; and the execution and delivery of this Agreement by the Company and its performance of its obligations hereunder do not and will not violate or constitute a default under the Corporation's Articles of Incorporation or bylaws or any agreement, indenture, mortgage, lease, note or other obligation or instrument or any order of any court or administrative agency binding upon the Company;

(b) The cost of the Facilities, as defined in the Act, is estimated by the Company as of the date hereof to be not less than \$25,000,000; and

(c) The Facilities are to be located in the Counties of Delaware, Chester, Montgomery and Bucks, in the Commonwealth, and within the authorized service area of the Company.

SECTION 2.03. Findings of the Authority. The Authority hereby confirms its findings that:

(a) The Company is of a nature and size and is engaged in activities which require substantial capital, is financially responsible to assume all obligations prescribed by the Authority and the Act and is qualified to be an "occupant" for purposes of the Act; and

(b) The Project to be undertaken by the Authority hereunder will promote the purposes of the Act by protecting the health, safety and general welfare of the people of the Commonwealth and encouraging economic development within the Commonwealth through the provision of basic services and facilities, thereby alleviating unemployment, maintaining employment at a high level and creating and developing business opportunities.

-8-

ARTICLE III

COMPLETION OF THE FACILITIES; ISSUANCE OF THE BONDS

SECTION 3.01. Portions of Project Completed. Work on certain of the Facilities has been commenced and/or has been completed.

SECTION 3.02. Acquisition, Etc., of the Facilities; Completion. The Company will cause the acquisition, construction, installation and equipping of the Facilities to be completed with all reasonable dispatch for and at the expense of the Authority, as herein provided, substantially in accordance with the Plans and Specifications. In order to effectuate the purposes of this Agreement, the Company will make, execute, acknowledge and deliver, or cause to be made, executed, acknowledged and delivered, all such contracts, orders, receipts, writings and instructions, in the name of the Company or otherwise, with or to other persons, firms or corporations, and in general do or cause to be done all such other things as may be requisite or proper for acquiring, constructing, installing and equipping the Facilities and fulfilling the obligations of the Company under this Agreement.

The Company will maintain such records in connection with the acquisition, construction, installation and equipping of the Facilities as to permit ready identification of the Facilities, and the Cost of Construction thereof.

SECTION 3.03. Issuance of Bonds. In order to provide funds for payment of the Cost of Construction of the Facilities the Authority will sell, issue and deliver to the initial purchasers thereof, the 1999 Bonds and deliver the proceeds thereof to the Trustee. A sum equal to the accrued interest, if any, paid by the initial purchasers of the 1999 Bonds shall be deposited in the Debt Service Fund and the balance of the proceeds received from said sale, after payment of the costs of issuance of the 1999 Bonds, and certain other funds of the Company available for the purpose, shall be deposited in the Construction Fund.

SECTION 3.04. Payments From Construction Fund. In the Indenture, the Authority has authorized and directed the Trustee to make payments from the Construction Fund to pay the Cost of Construction of the Facilities upon receipt of Requisitions (as defined therein) signed by an Authorized Company Representative, setting forth the matters required pursuant to Exhibit "B" to the Indenture.

-9-

SECTION 3.05. Requisitions. The Company will cause such Requisitions to be submitted to the Trustee as may be necessary to effect payments out of the Construction Fund in accordance with the provisions of the Indenture; provided, however, that the Company will not submit any Requisition for payment of any item not properly included in the cost of the Facilities as defined in the Act or which, if paid, would result in less than 95% of the proceeds from the 1999 Bonds being used to acquire, construct, install and equip the Facilities.

SECTION 3.06. Plans and Specifications. The Company may revise the Plans and Specifications, including revisions to add structures, equipment, fixtures and machinery not described in Exhibit A hereto, and modifications or deletions of structures, equipment, fixtures and machinery described therein, at any time and from time to time prior to the Completion Date, provided that in the case of a material change, (a) an Authorized Company Representative shall certify to the Trustee that the Facilities provided for by the revised Plans and Specifications will constitute facilities for the furnishing of water meeting the requirements of Section 142(a)(4) of the Code; and (b) the Trustee shall be furnished with a Favorable Opinion of Recognized Bond Counsel that the revision of the Plans and Specifications and the expenditure of moneys from the Construction Fund to pay the Cost of Construction of the Facilities in accordance with the revised Plans and Specifications will not adversely affect the exclusion of interest on the 1999 Bonds from gross proceeds of the holders thereof for federal income purposes.

SECTION 3.07. Completion of Facilities. When the Facilities have been completed, the Company shall so notify the Authority and the Trustee by a certificate of an Authorized Company Representative. Such certificate shall establish the Completion Date and shall state that, except for amounts retained by the Trustee at the Company's direction for any Cost of Construction of the Facilities not then due and payable or the liability for payment of which is being contested or disputed by the Company: (a) acquisition, construction, installation and equipping of the Facilities have been completed substantially in accordance with the Plans and Specifications, and all labor, services, materials and supplies used therefor have been paid for; and (b) all other facilities necessary in connection with the Facilities have been constructed, installed and equipped in accordance with the Plans and Specifications, and all costs and expenses incurred in connection therewith have been paid.

Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights against third parties which exist at the date thereof or which may subsequently come into being.

-10-

SECTION 3.08. Company to Pay Additional Amounts If Required. If the moneys in the Construction Fund shall not be sufficient to pay the Cost of Construction of the Facilities in full, the Company will complete the Facilities and pay all that portion of the Cost of Construction thereof in excess of the moneys available therefor in the Construction Fund. The Authority does not make any warranty, either express or implied, that the moneys which will be paid into the Construction Fund will be sufficient to pay the Cost of Construction of the Facilities. If the Company shall pay any portion of the Cost of Construction of the Facilities pursuant to the provisions of this Section, it shall not be entitled to any reimbursement therefor from the Authority, the Trustee or the holders of any of the 1999 Bonds, nor shall it be entitled to any diminution in or postponement of the Loan Repayments required in Section 4.02 hereof to be paid by the Company.

SECTION 3.09. Contractor Defaults; Company Proceedings. In the event of default of any contractor or subcontractor under any contract made by it in connection with the Facilities or in the event of a breach of warranty with respect to any materials, workmanship or performance guaranty, the Company may proceed, either separately or in conjunction with others, to pursue such remedies against the contractor or subcontractor so in default and against each surety for the performance of such contract as it may deem advisable. The Company will advise the Authority of the steps it intends to take in connection with any such default.

If the Company shall so notify the Authority, the Company may, in its own name or in the name of the Authority, prosecute any action or proceeding or take any other action involving any such contractor, subcontractor or surety which the Company deems reasonably necessary, and in such event the Authority will cooperate fully with the Company. Any amounts recovered by way of damages, refunds, adjustments or otherwise in connection with the foregoing prior to the Completion Date shall be paid into the Construction Fund, and any amounts so recovered after the Completion Date shall be retained by or paid to the Company.

SECTION 3.10. Investment of Amounts in the Construction Fund. Any moneys held in the Construction Fund shall be invested or reinvested as provided in Article VI of the Indenture. The Company shall not request any investment of such moneys which would be in violation of the covenant of the Authority contained in the final paragraph of Section 6.03 of the Indenture.

-11-

ARTICLE IV

LOAN AND OTHER AMOUNTS

SECTION 4.01. Loan by Authority to Company. The Authority on this date is lending to the Company the sum of \$25,000,000 ("Loan"), being the proceeds of the issuance of the 1999 Bonds.

SECTION 4.02. Repayment of Loan and Other Amounts. (a) Loan Repayments. The Company shall pay to the Authority, as and for the repayment of the loan, (i) on the second Business Day prior to each Interest Payment Date, maturity date or date established for the redemption of the 1999 Bonds, as the case may be, an amount which, together with other moneys available for the purpose in the Debt Service Fund under the Indenture, will equal the sum of (x) the interest which will become due on such date on the 1999 Bonds; plus (y) the principal amount of the 1999 Bonds, if any, maturing on such date; plus (z) the principal amount of and premium, if any, on the 1999 Bonds, if any, to be redeemed on such date; and (ii) on any date on which the 1999 Bonds shall be declared to be and shall become due and payable prior to their stated maturity pursuant to the provisions of the Indenture, an aggregate amount equal to the sum of the principal or redemption price of and interest so becoming due and payable on the 1999 Bonds (all of the foregoing are collectively "Loan Repayments").

Nothing herein contained shall be construed as imposing on the Authority or on the Trustee any duty or responsibility of giving any prior

notice to the Company of the due date of any Loan Repayment hereunder, or of the amount on deposit in the Debt Service Fund, or of the amount of any credits available to the Company against any Loan Repayment and failure by the Company to receive any such prior notice, even if customarily given by the Authority or the Trustee, shall not relieve the Company of its obligation to make any Loan Repayment when it is due and payable.

All such payments shall be made in funds which will be immediately available funds at the place of payment on the payment date in question. The Company shall have the option to make prepayment, from time to time, in whole or in part of any amount due as aforesaid on account of the Loan, together with interest accrued and to accrue with respect to such prepayment. The Authority shall direct the Trustee in writing to apply such prepayments to the purchase or redemption of Bonds in such manner, consistent with the provisions of the Indenture, as may be directed by the Company.

-12-

In the event the Company shall fail to make any of the payments required in this Section, the item or payment so in default shall continue as an obligation of the Company until the amount in default shall have been fully paid, and the Company will pay the same with interest thereon from the due date until paid at the highest rate per annum borne by the Bonds.

The obligation of the Company to make Loan Repayments hereunder is subject to acceleration as set forth in Section 7.02 hereof.

(b) Other Amounts. So long as any Bonds are outstanding, the Company shall pay to the Authority on each of the Loan Repayment dates referred to in Section 4.02(a) of this Agreement the amount of Administration Expenses not theretofore provided for which have then accrued and become payable.

In furtherance of the foregoing, the parties agree that the Company shall pay to the Authority the reasonable fees and expenses of the Authority in connection with this Agreement and the Bonds and any and all other expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds or incurred by the Authority in connection with any litigation which may at any time be instituted involving this Agreement, the Bonds, or any of the other documents contemplated thereby, or incurred in connection with the administration of this Agreement, or otherwise in connection with this Agreement, or any of the other documents, instruments or agreements in connection therewith. Such fees shall include, but not be limited to, the Authority's regular annual administration fees and termination fees.

SECTION 4.03. Security For Payment. To further secure the obligation of the Company to make Loan Repayments, the Company will execute and deliver its First Mortgage Bond under the Mortgage Indenture in one or more series, in such principal amounts and with such interest rates, interest payment and maturity dates and redemption provisions as may correspond to such provisions of the 1999 Bonds issued and sold by the Authority. Contemporaneously with the execution and delivery of this Agreement the Company is executing and delivering, as security for its obligation to make Loan Repayments, its First Mortgage Bond which contains provisions with respect to interest rate, interest payment and maturity dates, redemption and acceleration of maturity corresponding to such provisions of the 1999 Bonds.

-13-

SECTION 4.04. Assignment to Trustee. It is understood and agreed that the obligations of the Company to make the payments due under this Agreement and the First Mortgage Bond securing those obligations are to be assigned and pledged by the Authority to the Trustee. The Company assents to such assignment and pledge and agrees that, as to the Trustee, its obligation to make such payments and the payments required under the First Mortgage Bond shall be absolute and unconditional and shall not be subject to any defense other than payment or to any right of set off, counterclaim or recoupment arising out of any breach by the Authority of any obligation to the Company, whether hereunder or otherwise, or out of any indebtedness or liability at any time owing to the Company by the Authority.

The Authority hereby directs the Company and the Company agrees to pay to the Trustee at its designated office in Philadelphia, Pennsylvania, all payments pursuant to this Agreement and the payments required under the First

Mortgage Bond.

SECTION 4.05. Operation and Maintenance. The Company shall maintain, preserve, and keep the Facilities or cause the Facilities to be maintained, preserved and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition and, from time to time, will make or cause to be made all such repairs, replacements and renewals as it deems necessary. The Authority shall not operate the Facilities or have any obligation to maintain them.

The Company shall have the privilege of remodeling the Facilities or making substitutions, modifications and improvements to the Facilities from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, the cost of which remodeling, substitutions, modifications and improvements shall be paid by the Company and the same shall be the property of the Company and be included under the terms of this Agreement as part of the Facilities.

SECTION 4.06. Insurance. At all times during the term of this Agreement the Company will keep the Facilities continuously insured in accordance with the requirements of the Mortgage Indenture.

-14-

SECTION 4.07. Liens. The Company will pay or cause to be discharged or make adequate provision to satisfy and discharge, within sixty (60) days after the same shall accrue, any lien or charge (other than Permitted Encumbrances) upon any Loan Repayments hereunder or upon any First Mortgage Bond pledged as security for the payment thereof and all lawful claims or demands which, if unpaid, might be or become a lien upon any Loan Repayments hereunder or upon any First Mortgage Bond pledged as security for the payment thereof. Notwithstanding the foregoing, if the Company shall first notify the Authority and Trustee of its intention so to do, the Company may in good faith contest any such lien or charge or claim or demand in appropriate legal proceedings, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, unless the Authority or the Trustee shall notify the Company in writing that, in the opinion of Counsel, by nonpayment of any such items the lien of the Indenture as to the Loan Repayments payable pursuant to this Agreement or as to any First Mortgage Bond pledged as security for the payment thereof shall be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items. The Authority will cooperate fully with the Company in any such contest.

SECTION 4.08. Facilities Used For Purpose of the Act. So long as the Company operates the Facilities, they will be used for purposes permitted by the Act and as facilities for the furnishing of water.

SECTION 4.09. Payment of Certain Costs. The Company shall pay, or cause to be paid in addition to the payments provided for in Section 4.02, Section 4.04 and Section 4.07 hereof, all of the expenses of operation of the Facilities, including, without limitation, the cost of all necessary and proper repairs, replacements and renewals made pursuant to Section 4.05 hereof.

SECTION 4.10. Obligation to Make Payments Absolute. It is understood and agreed that the payments under Section 4.02 hereof and other charges payable hereunder shall continue to be payable at the time and in the amounts herein specified, whether or not the Facilities, or any portion thereof, shall have been destroyed by fire or other casualty, or title thereto, or the use thereof, shall have been taken by the exercise of the power of eminent domain, and that there shall be no abatement of any such payments and other charges by reason thereof.

-15-

ARTICLE V

SPECIAL COVENANTS

SECTION 5.01. No Warranty. The Authority makes no warranty, either express or implied, as to the actual or designed capacity of the Facilities, as to the suitability of the Facilities for the purposes specified in this Agreement, or that the Facilities will be suitable for the Company's purposes or

needs.

SECTION 5.02. Company to Maintain Corporate Existence, Etc. The Company shall maintain its corporate existence and its qualification to do business in the Commonwealth, will not dissolve or otherwise dispose of all or substantially all its assets and will not consolidate with or merge into another corporation except as provided in this Section 5.02; provided, however, that the Company may consolidate with or merge into another corporation, or sell or otherwise transfer to another Company all or substantially all its assets as an entirety and thereafter dissolve, if (a) the successor corporation assumes in writing all the obligations of the Company herein and in the First Mortgage Bond, and (b) if the successor corporation is not a Pennsylvania corporation, said successor shall either qualify to do business in the Commonwealth or file with the Trustee a consent to service of process in the Commonwealth in form satisfactory to the Trustee.

If consolidation, merger or sale or other transfer is made as permitted by this Section, the provisions of this Section shall continue in full force and effect and no further consolidation, merger or sale or other transfer shall be made except in compliance with the provisions of this Section.

SECTION 5.03. Operation of Facilities; Maintenance of Licenses and Permits. The Company shall operate the Facilities as part of its system for the furnishing of water to the general public at rates approved by the Public Utility Commission of the Commonwealth, and to that end will maintain in force and effect the requisite franchises, operating rights, certificates of public convenience and necessity, tariffs, licenses and permits.

-16-

SECTION 5.04. Additional Permits. In the event it may be necessary for the proper performance of this Agreement on the part of the Authority or the Company that any application or applications for any permit or license to do or to perform certain things be made to any governmental or other agency by the Company or the Authority, the Company and the Authority shall execute upon the request of the other such application or applications.

SECTION 5.05. Authority to Maintain Corporate Existence, Etc. The Authority will maintain its corporate existence and duly will procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve and renew all its rights, powers, privileges and franchises; and will comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body applicable to the Facilities. The Authority further covenants that it will not voluntarily or knowingly take or fail to take any action that would result in the loss of any exemption from taxes which it presently enjoys or to which it may subsequently become entitled.

SECTION 5.06. Compliance With Continuing Disclosure Agreement. The Company hereby covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of this Agreement, failure of the Company to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder or under the Indenture; however, the Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the holders of at least 25% aggregate principal amount in Outstanding 1999 Bonds and provision of indemnity satisfactory to the Trustee in its sole discretion, shall) or any Bondholder may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Company to comply with its obligations under this Section 5.06.

-17-

SECTION 5.07. Certain Tax Covenants. The Company will comply with all provisions of the Tax Compliance Agreement to be complied by it. The Company will not take any action or fail to take any action (including the requirement to make rebate payments to the United States as required under Section 148(f) of the Code and the Tax Compliance Agreement and the obligations described in 5.05 of the Indenture) which would cause the Bonds to be "arbitrage bonds" within the meaning of Sections 103(b) and 148(a) of the Code or would otherwise cause interest on the 1999 Bonds to be includible in the gross income of the holders thereof for federal income tax purposes (except with respect to the interest on

the 1999 Bonds during any period when such Bonds are held by a "substantial user" of the Facilities financed by the 1999 Bonds or a "related person" within the meaning of Section 147(a) of the Code); provided, however, that if the Trustee receives an opinion of Recognized Bond Counsel that any action or failure to take action will cause the interest on the 1999 Bonds to be included in the gross income of Bondholders for Federal income tax purposes, no Event of Default shall be deemed to have occurred unless and until there is a Final Determination of Taxability.

SECTION 5.08. Financial Statements. For so long as the Bond Insurance Policy is outstanding and in effect, the Company shall provide the Bond Insurer within 120 days after the end of the Company's fiscal year copies of the Company's audited financial statements and such additional information as the Bond Insurer may reasonably request from time to time.

-18-

ARTICLE VI

ASSIGNMENT, LEASING AND SALE OF FACILITIES

SECTION 6.01. Assignment, Lease and Sale of Facilities. The Company shall not sell, lease or otherwise dispose of or encumber the Facilities except as provided in Section 5.02 and this Section 6.01. This Agreement may be assigned in whole or in part and the Facilities may be sold or leased as a whole or in part by the Company, subject, however, to the following conditions:

(a) The Company may sell or otherwise dispose of any machinery, fixtures, apparatus, tools, instruments or other movable property constituting part of the Facilities (collectively, "Moveable Property") which the Company deems no longer to be needed or useful in its operation of the Facilities; provided, that if the original cost of acquisition of such machinery, fixtures, apparatus, tools, instruments or other movable property was more than \$100,000, the Company shall, in writing, certify to the Authority that such items are no longer needed or useful in its operation of the Facilities. Any proceeds thereof shall be paid to the Trustee for deposit in the Construction Fund or used to purchase replacements for the Moveable Property sold or disposed of pursuant to this Section 6.01(a);

(b) No sale, assignment or leasing (other than pursuant to Section 5.02 hereof) shall relieve the Company from primary liability for any of its obligations hereunder, and in the event of any such sale, assignment or leasing the Company shall continue to remain primarily liable for the payments specified in Sections 4.02, 4.04 and 4.07 hereof and for performance and observance of the other agreements on its part herein provided;

(c) The purchaser, assignee or lessee from the Company shall assume the obligations of the Company hereunder to the extent of the interest assigned or leased;

(d) The Company shall, at least fifteen (15) days prior to the delivery thereof, furnish or cause to be furnished to the Authority, for its information only, a true and complete copy of each such proposed sale agreement, assignment or lease, as the case may be, and shall furnish to the Authority and the Trustee an executed copy thereof following execution;

-19-

(e) The Company shall pay the Authority's and the Trustee's reasonable costs and expenses incurred, and the reasonable fees charged thereby, in connection with such sale, assignment or lease; and

(f) The Company shall furnish to the Trustee a Favorable Opinion to the effect that the proposed sale, assignment or lease, as the case may be, will not adversely affect the exclusion of interest on the 1999 Bonds from gross income of the holders thereof from federal income tax purposes.

SECTION 6.02. Assignment of Rights Under Agreement. The Authority shall assign its rights under and interest in this Agreement (except for its rights to receive certain fees and expenses, to receive certain notices, and any and all rights to indemnification), and will pledge and assign all Loan Repayments and security therefor, including the First Mortgage Bond of the Company pledged as security therefor, and receipts and revenues receivable under or pursuant to

this Agreement, and income earned by the investment of funds held under the Indenture, to the Trustee pursuant to the Indenture as security for payment of the principal of, premium, if any, and interest on the Bonds, but such assignment or pledge shall be subject to this Agreement.

Except as provided in Section 6.01(b) and Section 6.02 hereof, the Authority will not otherwise sell, assign, transfer, convey or dispose of the revenues from the Facilities or the First Mortgage Bond during the term of this Agreement, nor will it take any action which may reasonably be construed as tending to cause or induce the levy of special assessments against the Facilities or such revenues or the First Mortgage Bond, nor will it create or suffer to be created any lien or charge upon the Facilities or such revenues or the First Mortgage Bond except Permitted Encumbrances.

-20-

ARTICLE VII

EVENTS OF DEFAULT AND REMEDIES

SECTION 7.01. Events of Default. (a) Subject to the provisions set forth in Section 7.01(c) hereof, each of the following shall be an "Event of Default" under this Agreement, and the terms "Event of Default" or "Default" shall mean, whenever they are used in this Agreement, any one or more of the following events:

(i) Failure by the Company to pay when due any Loan Repayments; or

(ii) Failure by the Company to pay when due any payment required to be made under this Agreement other than Loan Repayments, which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Authority or the Trustee, unless the Company is contesting in good faith its obligation to make the payment or the Authority and the Trustee shall agree in writing to an extension of such time prior to its expiration; or

(iii) Failure by the Company to observe and perform any covenant, condition or agreement on its part to be observed or performed, other than as referred to in subsections (a) and (b) of this Section, which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time prior to its expiration; or

(iv) The dissolution or liquidation of the Company or the filing by the Company of a voluntary petition under the laws of the United States relating to bankruptcy or failure by the Company promptly to procure the dismissal of an involuntary petition in bankruptcy filed against it, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors, or the appointment by a court of competent jurisdiction of a receiver for the Company. The term "dissolution or liquidation of the Company" as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Company resulting either from a merger or consolidation of the Company into or with another Company or a dissolution or liquidation of the Company following a transfer of all or substantially all its assets as an entirety under the conditions permitting such actions contained in Section 5.02 hereof.

-21-

(b) A failure by the Authority to observe or perform any covenant or agreement herein contained on its part to be observed or performed shall not constitute an event of default hereunder, but the Company shall be entitled to enforce the observance and performance by the Authority of any of its covenants or agreements herein contained by such remedies at law or in equity as it deems desirable, subject to the limitation of liability set forth in Section 8.03 hereof.

(c) The foregoing provisions of this Section are subject to the following limitations: if by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the

government of the United States or of the Commonwealth or any department, agency, political subdivision or official of either of them, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; fires; hurricanes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; partial or entire failure of utilities; or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out its agreements herein contained, other than the obligations on the part of the Company contained in Sections 4.02 hereof, the Company shall not be deemed in default during the continuance of such inability.

The Company agrees to use its best efforts to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; provided, however, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course, in the judgment of the Company, is unfavorable to the Company.

Any failure of the Company to perform its obligations under Section 4.02 hereof shall constitute an Event of Default regardless of the reason for such failure to perform.

SECTION 7.02. Remedies. Whenever any Event of Default referred to in Section 7.01 hereof shall have happened and be subsisting, any one or more of the

-22-

following remedial steps may be taken, provided such Default has not theretofore been cured:

(a) The Authority, at its option, may declare the unpaid principal balance of the Loan to be immediately due and payable, whereupon the same shall become immediately due and payable; and

(b) The Authority may take any action at law or in equity to collect the payments then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement and under the First Mortgage Bond. All amounts collected pursuant to action taken under this Section shall be applied in accordance with the Indenture.

SECTION 7.03. Remedies Not Exclusive. No remedy conferred upon or reserved to the Authority by this Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

SECTION 7.04. Reimbursement of Fees and Expenses. If the Company shall default under any of the provisions of this Agreement and the Authority shall employ attorneys or incur other expenses for the collection of Loan Repayments or for the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement or in the First Mortgage Bond, the Company, on demand therefor, will reimburse the Authority for reasonable fees and expenses of such attorneys and such other reasonable expenses so incurred.

-23-

SECTION 7.05. Waivers of Breaches. In the event any agreement contained in this Agreement shall be breached by either party and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of the Authority's rights in and under this Agreement to the Trustee under the Indenture, the Authority shall have no power

to exercise any right hereunder or waive any default hereunder by the Company without the written consent of the Trustee to such exercise or waiver, or, if the maturity of the Outstanding 1999 Bonds shall have been accelerated at the request of the holders of the 1999 Bonds, the consent of the holders of a majority in principal amount of the 1999 Bonds then Outstanding. In the event any default by the Company hereunder shall have been waived as a default under the Indenture by the holders of the requisite majority in principal amount of the 1999 Bonds, no consent of the Trustee shall be required, and the Authority shall be obligated to waive the Company's default hereunder.

-24-

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Termination. This Agreement shall terminate upon (i) payment in full of the 1999 Bonds (including interest and premium, if any, thereon), or the making of provision for payment thereof in accordance with the provisions of the Indenture; (ii) payment of all other reasonable and necessary obligations incurred by the Authority to pay the Cost of Construction of the Facilities, including interest, Premium and other charges, if any, thereon; and (iii) payment of all unpaid Administration Expenses.

Any amounts, other than amounts being held for payment of the 1999 Bonds or other payments referred to in the preceding sentence, then remaining in the Debt Service Fund and other Funds established under the Indenture shall belong to and be paid to the Company by the Trustee.

SECTION 8.02. Notices. All notices, certificates, requests or other communications hereunder shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows:

if to the Authority:

200 E. State Street
Suite 205
Media, Pennsylvania 19063

if to the Company:

762 Lancaster Avenue
Bryn Mawr, Pennsylvania 19010
Attention: Vice President and Treasurer

-25-

if to the Trustee:

Chase Manhattan Trust Company, National Association
One Liberty Place
Suite 5210
1650 Market Street
Philadelphia, PA 19103
Attention: Corporate Trust Department

A duplicate copy of each notice, certificate, request or other communication given hereunder to the Authority, the Company or the Trustee shall also be given to the others. The Company, the Authority and the Trustee, by giving notice as above provided, may designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent.

SECTION 8.03. Benefit of Agreement. This Agreement shall inure to the benefit of and shall be binding upon the Authority, the Company and their respective successors and assigns, subject to the limitation that any obligation or liability of the Authority created by or arising out of this Agreement shall not be a general debt or liability of the Authority, but shall be payable solely out of the proceeds derived from this Agreement, the First Mortgage Bond, or the sale of the 1999 Bonds or income earned on invested funds as provided herein and in the Indenture.

SECTION 8.04. Amendments. This Agreement may be amended in any respect

but only by written agreement of the parties hereto, subject to the limitations upon such amendments set forth in the Indenture.

SECTION 8.05. Counterparts. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered shall be an original; but such counterparts shall together constitute but one and the same Agreement.

SECTION 8.06. Invalidity of Certain Clauses. If any clause, provision or section of this Agreement be held illegal or invalid by any court, the invalidity of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof, and this Agreement shall be construed and enforced as if such illegal or invalid clause, provision or section had not been contained herein. In case any agreement or obligation contained in this Agreement be held to be in violation of law, then such agreement or obligation shall be deemed to be the agreement or obligation of the Authority or the Company, as the case may be, only to the extent permitted by law.

-26-

SECTION 8.07. Governing Law. The laws of the Commonwealth shall govern the construction and interpretation of this Agreement.

SECTION 8.08. Indemnification.

(a) The Company agrees that at all times it will protect and hold the Authority and its officers, members, employees and agents (including, but not limited to, the Authority's legal counsel), past, present and future, harmless and indemnified from and against all claims for losses, damages or injuries to the Trustee or others, including death, personal injury and property damage or loss, arising during the term hereof or during any other period when the Authority has, had or shall have any interest in the Facilities or arising out of the use thereof or any activity conducted thereon or in any other manner connected therewith, directly or indirectly, including but not limited to claims arising out of the acquisition, construction, installation, equipping and operation of the Facilities; and the Authority, and its officers, members, employees and agents, past, present and future, shall not be liable for any loss, damage or injury to the Person or property of the Company or its agents, servants or employees or any other Person who or that may be upon the Facilities or damaged or injured as a result of any condition existing or activity occurring upon the Facilities or any other matter connected directly or indirectly therewith due to any act or negligence of any Person, excepting only willful misconduct or gross negligence of the Authority, and its officers, agents, members or employees, past, present and future.

(b) The Company hereby covenants and agrees that it will indemnify and hold the Trustee and its directors, officers, agents and employees (collectively, the "Indemnitees") harmless from and against any and all claims, liabilities, losses, damages, fines, penalties, and expenses, including out-of-pocket, incidental expenses, legal fees and expenses, the allocated costs and expenses of in-house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim (collectively "Losses") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Trustee is authorized to rely pursuant to the terms of this Agreement and the Indenture. In addition to and not in limitation of the immediately preceding sentence, the Company also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's performance under this Agreement and the Indenture, provided the Trustee has not acted with negligence or engaged in willful misconduct. The provisions of this Section 8.08(b) shall survive the termination of this Agreement and the Indenture, the defeasance of the 1999 bonds and the resignation or removal of the Trustee for any reason.

-27-

(c) The Company shall indemnify, hold harmless and defend the Authority and the Trustee and the respective officers, members, directors, employees and agents (including, but not limited to, the Authority's and the Trustee's legal counsel) each of them, past, present and future, against all loss, costs, damages, expenses, suits, judgments, actions and liabilities of

whatever nature, including, specifically, (i) any liability under any state or federal securities laws (including, but not limited to attorneys fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) and (ii) any and all costs and expense arising out of, or from, any state or federal environmental laws (including, without limitation, costs of remediation, attorney's fees and expenses, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) directly or indirectly resulting from or arising out of or related to: (A) the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Facilities (including compliance with laws, ordinances and rules and regulations of public authorities relating thereto); or (B) any statements or representations with respect to Company, the Project, this Agreement, the 1999 Bonds, the Indenture or any other document or instrument delivered in connection with the issuance of the 1999 Bonds (including any statements or representations made in connection with the offer or sale thereof) made or given to the Authority, the Trustee or any underwriters or purchasers of any of the bonds, by the Company or any of its directors, officers, agents or employees, including but not limited to, statements or representations of facts, financial information or corporate affairs.

The Company also will pay and discharge and indemnify and hold harmless the Authority and the Trustee from (i) any lien or charge upon payments by the Company to the Authority and the Trustee under this Agreement, and (ii) any taxes (including, without limitation, any ad valorem taxes and sales taxes, assessments, impositions and other charges) in respect of any portion of the Facilities.

If any such claim is asserted, or any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges are sought to be imposed, the Authority or the Trustee will give prompt notice to the Company, and the Company shall have the sole right and duty to assume, and will assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

-28-

(d) The Company releases the Authority and the Trustee from, agrees that the Authority and the Trustee shall not be liable for, and agrees to indemnify and hold the Authority and the Trustee and their agents, employees and servants, harmless from, any liability arising out of the construction of the Facilities or the Loan. If any such claim is asserted, the Authority or the Trustee will give prompt notice to the Company and the Company will assume the defense thereof, with full power to litigate, compromise or settle the claim in its sole discretion. The Company will reimburse the Authority or the Trustee, as the case may be, for all direct costs, including reasonable attorney's fees and expenses properly incurred in connection therewith.

(e) If the indemnification provided herein is for any reason determined to be unavailable to the Authority or the Trustee, then, with respect to any such loss, claim, demand or liability, including expenses in connection therewith, the Authority and the Trustee, as appropriate, shall be entitled as a matter of right to contribution by the Company. The amount of each contribution shall be in such proportion as is appropriate to reflect relative culpability of the parties.

(f) The Company shall not make any claim against the Authority, nor shall the Authority be liable for any damage or injury to any property of the Company or any other person on the Facilities or to any part of the Facilities due to any cause whatsoever, nor will the Company resist the Authority's claim to indemnification on the ground that the right to such claim is not set forth herein with sufficient particularity.

SECTION 8.09. Limitation of Rights Against Authority.

(a) The Company hereby expressly acknowledges that the Authority is a conduit issuer and that all of the right, title and interest of the Authority in and to this Agreement are to be assigned to the Trustee (except for the right of the Authority to receive its reasonable fees and expenses and to indemnification), naming the Trustee its true and lawful attorney for and in its name to enforce the terms and conditions of this Agreement. Notwithstanding any other provision contained herein, the Company hereby expressly agrees, acknowledges and covenants that to the extent practicable it shall duly and punctually perform or cause to be performed each and every duty and obligation of the Authority hereunder and under the Indenture.

(b) The Company shall neither sue the Authority, or any of its members, officers, agents or employees, past, present or future, for any costs, damages, expenses, suits, judgments, liabilities, claims, losses, demands, actions or nonactions based upon this financing or sustained in connection with or as a result of this financing nor ever raise as a defense in any proceedings whatsoever that the Authority is a true party in interest.

-29-

Notwithstanding any other provisions of this Agreement, the Company shall be entitled to (i) bring an action of specific performance against the Authority to compel any action required to be taken by the Authority hereunder or an action to enjoin the Authority from performing any action prohibited by this instrument, but no such action shall in any way impose pecuniary liability against the Authority or any of its members, officers, agents or employees, past, present and future, (ii) join the Authority in any litigation if such joinder is necessary to pursue any of the Company's rights, provided that prior to such joinder, the Company shall post such security as the Authority may require to further protect the Authority from loss and (iii) pecuniary remuneration from the Authority for damage or loss suffered by Company by reason of the willful misconduct of the Authority or any of its members, officers, agents or employees, past, present or future.

SECTION 8.10. Limitation of Recourse Against Authority.

(a) In the event of any default by the Authority hereunder, and notwithstanding any provision or obligation to the contrary herein before or hereinafter set forth, the liability of the Authority, its incorporator, officers, members, agents and employees, past, present or future, shall be limited to its interest in the Facilities, the improvements thereon, the rents, issues and profits therefrom, the Trust Estate and the lien of any judgment shall be restricted thereto. The Authority, its incorporator, officers, members, agents and employees, past, present or future, do not assume general liability nor specific liability for the repayment of any mortgage or other loan, or for the costs, fees, penalties, taxes, interest, commissions, charges, insurance or any other payments therein recited or therein set forth, or incurred in any way in connection therewith. Other than as set forth hereinabove in this Section 8.10, there shall be no other recourse for damages of any kind or nature by the Company or any other entity against the Authority, its incorporator, officers, members, agents and employees, past, present or future, or any of the property or other assets nor or hereafter owned by it or them, either directly or indirectly; and all such recourse or liability is hereby expressly waived and released as a condition of and in consideration of execution and delivery of this Agreement by the Authority.

-30-

(b) No recourse under or upon any obligation, covenant or agreement contained herein or in any 1999 Bond shall be had against the Authority or any member, officer, employee or agent, past, present or future, of the Authority or of any successor of the Authority under this Agreement, any other agreement, any rule of law, statute or constitutional provision, or by enforcement of any assessment or by any legal or equitable proceeding or otherwise, its expressly being agreed and understood that the obligations of the Authority hereunder, and under the 1999 Bonds and elsewhere, are solely corporate obligations of the Authority to the extent specifically limited in the Act and that no personal liability whatsoever shall attach to or shall be incurred by the Authority or such members, officers, employees or agents, past, present or future, of the Authority or of any successor of the Authority, or any of them, because of such indebtedness or by reason of any obligation, covenant or agreement contained herein, in the 1999 Bonds or implied therefrom.

-31-

IN WITNESS WHEREOF, the parties hereto have caused this Construction and Financing Agreement to be duly executed as of the day and year first above written.

DELAWARE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: _____

Chairman

(Seal)

Attest: _____
Secretary

PHILADELPHIA SUBURBAN WATER
COMPANY

By: _____
Vice President

(Seal)

Attest: _____
Asst. Secretary

-32-

COMMONWEALTH OF PENNSYLVANIA:
Series.:
COUNTY OF DELAWARE :

On this the 7th day of October 1999, before me the undersigned notary public personally appeared Marvin E. Berger who acknowledged himself to be the Chairman of the Delaware County Industrial Development Authority, a public body corporate and politic organized and existing under the laws of the Commonwealth of Pennsylvania, and that he as such officer, being authorized to do so, executed the foregoing Construction and Financing Agreement for the purposes therein contained by signing the name of Delaware County Industrial Development Authority by himself as its Chairman.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

[SEAL]

/s/ Dawn M. Raymond

Notary Public
My Commission Expires:

-33-

COMMONWEALTH OF PENNSYLVANIA:
Series.:
COUNTY OF DELAWARE :

On this the 5th day of October 1999, before me the undersigned notary public personally appeared Kathy L. Pape who acknowledged him/herself to be a [Vice President] of the Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he/she as such officer, being authorized to do so, executed the foregoing Construction and Financing Agreement for the purposes therein contained by signing the name of the Philadelphia Suburban Water Company by him/herself as its Vice President.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

[SEAL]

/s/ Linda M. Freeman

Notary Public
My Commission Expires:

-34-

CONSTRUCTION AND FINANCING
AGREEMENT DATED AS OF OCTOBER 1, 1999 BY AND
BETWEEN THE DELAWARE COUNTY INDUSTRIAL DEVELOPMENT
AUTHORITY AND PHILADELPHIA SUBURBAN WATER COMPANY

DESCRIPTION OF THE FACILITIES

The following projects comprise the Facilities and will be financed with the proceeds of the 1999 Bonds and will be owned by the Company (dollar amounts are maximum Bond proceeds allocable to each category):

Bucks County Project: \$4,014,029

Replacement of 3,530 feet of 8" water main ("B-1") ; Tie-in 31,700 feet of 12" water main ("B-2"); Installation of two new filters to increase capacity at the Neshaminy plant, Middletown Township ("B-3").

Chester County Project: \$10,121,902

Replacement of 9,594 feet of 12" water main ("C-1"); Tie in 13,770 feet of 12" water main ("C-2"); Tie in 7,770 feet of 12" water main ("C-3"); Installation of 33,000 feet of 20" water main ("C-4"); Installation of 7,200 feet of 12" water main ("C-5"); Installation of 5,775 feet of 12" water main ("C-6"); Construction and installation of a booster facility ("C-7"); Completion of all phases of construction and startup costs of Fern Hill plant ("C-8"); Tie in 20,440 feet of 12" water main ("C-9").

Delaware County Project: \$6,178,368

Replacement of 2,426 feet of 8" water main ("D-1"); Replacement of 2,835 feet of 12" main ("D-2"); Replacement of 4,330 feet of 8" water main ("D-3"); Replacement of 2,410 feet of 8" water main ("D-4"); Replacement of 3,283 feet of 8" water main ("D-5"); Replacement of 1,060 feet of 8" water main ("D-6"); Replacement of 4,860 feet of 8" water main ("D-7"); Replacement of 3,430 feet of 8" water main ("D-8"); Replacement of 3,112 feet of 12" water main ("D-9"); Designing, constructing, equipping and startup of a 16,300 square feet meter operation and storage building ("D-10").

A-1

Montgomery County Project: \$6,902,148

Replacement of 4,288 feet of 12" water main ("M-1"); Replacement of 5,096 feet of 10" water main with 16" water main ("M-2"); Replacement of 2,745 feet of 8" water main ("M-3"); Replacement of 4,400 feet of 8" water main ("M-4"); Replacement of 2,243 feet of 4" water main ("M-5"); Replacement of 8,447 feet of 12" water main ("M-6"); Replacement of 2,830 feet of 8" water main ("M-7"); Replacement of 599 feet of 8" water main ("M-8"); Replacement of 5,209 feet of 12" water main ("M-9"); Replacement of 6,700 feet of 12" water main ("M-10").

A-2

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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at September 30, 1999, and the consolidated statements of income and comprehensive income and the consolidated statements of cash flow for the nine months ended September 30, 1999, and is qualified in its entirety by reference to such financial statements.

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