

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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

For the fiscal year ended December 31, 2001

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  
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
-----

Name of each exchange on  
which registered  
-----

Common stock, par value \$.50 per share

New York Stock Exchange, Inc.  
Philadelphia Stock Exchange Inc.

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to filing requirements for the past 90 days.

Yes                          No      
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 2002.

\$1,345,282,568

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by March 1, 2002, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of each of the registrant's classes of common stock as of March 1, 2002.

68,486,101

Documents incorporated by reference

(1) Portions of registrant's 2001 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K

Report.

(2) Portions of the Proxy Statement, relative to the May 16, 2002 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K Report.

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K ("10-K"), or incorporated by reference in this 10-K, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 made based upon, among other things, our current assumptions, expectations and beliefs concerning future developments and their potential effect on us. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential" or the negative of such terms or similar expressions. Forward-looking statements in this 10-K, or incorporated by reference in this 10-K, include, but are not limited to, statements regarding:

- o projected capital expenditures and related funding requirements;
- o developments and trends in the water and wastewater utility industries;
- o opportunities for future acquisitions;
- o the development of new services and technologies by us or our competitors;
- o the availability of qualified personnel;
- o general economic conditions; and
- o merger-related costs and synergies.

Because forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including but not limited to:

- o changes in general economic, business and financial market conditions;
- o changes in government regulations, including environmental and public utility regulations;
- o abnormal weather conditions;
- o changes in capital requirements;
- o our ability to integrate businesses, technologies or services which we may acquire;
- o our ability to manage the expansion of our business;
- o the extent to which we are able to develop and market new and improved services;
- o the effect of the loss of major customers;
- o our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- o unanticipated capital requirements; and
- o cost overruns relating to improvements or the expansion of our operations.

Given these uncertainties, you should not place undue reliance on these forward-looking statements. You should read this 10-K and the documents that we incorporate by reference in this 10-K completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements represent our estimates and assumptions only as of the date of this 10-K. Except for our ongoing obligations to disclose material information under the federal securities laws, we are not obligated to update these forward-looking statements, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Business

The Company

Philadelphia Suburban Corporation (referred to as "we" or "us") is the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine, and North Carolina. Our two primary subsidiaries are Pennsylvania Suburban Water Company, a regulated public utility that provides water or wastewater services to about 1.3 million residents in the suburban areas north and west of the City of Philadelphia and in ten other counties in Pennsylvania, and Consumers Water Company, a holding company for several regulated public utility companies that provide water or wastewater service to about 700,000 residents in various communities in four states. Other subsidiaries provide water or wastewater services in parts of Pennsylvania, North Carolina and Ohio. In January 2002, Philadelphia Suburban Water Company and various of our other Pennsylvania operating subsidiaries were merged together into Pennsylvania Suburban Water Company. The purpose of the merger was to achieve certain legal, financing and administrative efficiencies and benefits. For operational purposes, those entities will continue to do business under their former names. For discussion purposes, all references to Pennsylvania Suburban Water Company relates to Pennsylvania Suburban Water Company or its predecessor companies.

We are among the largest investor-owned water utilities in the United States based on the number of customers. In addition, we provide water and wastewater service to approximately 35,000 people through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. Some of our subsidiaries provide wastewater collection, treatment and disposal services (primarily residential) to approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina.

Consumers Water Company owns 100% of the voting stock of three water companies operating in Ohio, Illinois and Maine, and at least 99% of the voting stock of one water company operating in New Jersey. Consumers Water Company's subsidiaries operate 24 divisions in these four states, providing water service to approximately 700,000 people.

The following table indicates by geographic area our number of customers served and utility revenues (water and wastewater revenues) for the year ended December 31, 2001:

	Utility Revenues (000's)	Number of Customers Served
-----		
Suburban Philadelphia Pennsylvania*	\$ 185,451	347,728
Ohio	25,192	47,121
Illinois	34,662	83,299
New Jersey	28,571	64,030
Maine	15,584	37,937
North Carolina	8,675	16,882
	2,053	5,513
	-----	-----
	\$ 300,188	602,510
	=====	=====

\* Other than suburban Philadelphia.

Item 1, Continued

The following table indicates by customer class our number of customers served and utility revenues for the year ended December 31, 2001:

Customer class	Utility Revenues (000's)	Number of Customers Served
Residential	\$ 188,303	526,776
Commercial	53,103	29,745
Industrial	16,140	1,454
Other	35,682	9,947
Wastewater and operating contracts	6,960	34,588
	<u>\$ 300,188</u>	<u>602,510</u>

Our customer base is primarily residential, representing approximately 63% of our total sales. Substantially all of our water customers are metered, which allows us to measure our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during the late spring and early summer. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. See "Water Supplies and Facilities" for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. Our exposure to regional weather conditions is lessened by our geographic diversity, as our customers are located in six states. During 2001, we experienced relatively dry weather and warmer temperatures than normal in portions of our service territory, particularly suburban Philadelphia, New Jersey and Maine. The 2001 weather conditions resulted in increased water consumption in these portions of our service territory, in contrast to the cool and wet weather conditions in these same areas during the summer of 2000, which resulted in a decline in water consumption during this period in 2000.

The growth in revenues over the past three years is a result of increases in the customer base and in water rates. Excluding customers added through acquisitions and other growth ventures, during the three-year period of 1999 through 2001, our customer base grew at an annual compound rate of 1.2%. Including acquisitions and other growth ventures, our customer base increased at an annual compound rate of 4.1% during this period. The customer growth rate in 2001 was 4.0%. Our business combination with Consumers Water Company in 1999 has enabled us to grow through acquisitions in the areas where Consumers operates, and to enter a new state, North Carolina, in 2000.

Acquisitions and Water Sale Agreements

With more than 50,000 community water systems in the U.S. (85% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric and water). The nation's water systems range in size from large municipally-owned systems, like the New York City water system that serves about 9 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are over 8,800 public water systems of widely varying size.

Item 1, Continued

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S Environmental Protection Agency's most recent survey of publicly-owned wastewater treatment facilities in 1996, there are approximately 16,000 such facilities in the nation serving approximately 72% of the U.S. population. The vast majority of wastewater facilities are government-owned rather than privately-owned. That survey also indicates that there are about 3,500 such

facilities in operation or planned in the six states where we operate.

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

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

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

During the past five years, exclusive of the Consumers Water Company merger we have completed 73 acquisitions or other growth ventures adding approximately 66,200 customers to our customer base. The largest of these transactions was the acquisition of the water utility assets of Bensalem Township in December 1999, which has added 14,945 customers. We are actively exploring other opportunities to expand our utility operations through acquisitions or otherwise.

#### Water Supplies and Water Facilities

Our water utility operations obtain their water supplies from surface water sources such as reservoirs, lakes, ponds, rivers and streams, in addition to obtaining water from wells and purchasing water from other water suppliers. Less than 10% of our water sales are purchased from other suppliers. We believe that we have all of the necessary permits to obtain the water we distribute. Our supplies are sufficient for anticipated daily demand and normal peak demand under normal weather conditions. Our supplies by service area are as follows:

- o Suburban Philadelphia - The principal supply of water is surface water from the Schuylkill River, Delaware River, eight rural streams which are tributaries of the Schuylkill and Delaware Rivers, and the Upper Merion Reservoir, a former quarry now impounding groundwater. Wells and interconnections with adjacent municipal authorities supplement these surface supplies.
- o Pennsylvania (other than suburban Philadelphia) - The Roaring Creek Division draws its water from a man-made lake within a 12,000 acre watershed and two wells also located in the watershed. The Susquehanna Division obtains its water supply from wells. The Shenango Division draws its water from the Shenango River. The Waymart Division's water supply is principally from wells.

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#### Item 1, Continued

- o Ohio - Water supply is obtained for customers in Lake County from Lake Erie. Customers in Mahoning County obtain their water from man-made lakes and the Ashtabula division is supplied by purchased water. Water supply is obtained for customers in Stark and Summit Counties from wells.
- o Illinois - Water supply is obtained for customers in Kankakee County from the Kankakee River and satellite wells, while customers in Vermilion County are supplied from Lake Vermilion. In Will, Lee, Boone, Lake and Knox counties, our customers are served from deep and shallow well systems.
- o New Jersey - Water supply in our three non-contiguous divisions is obtained from wells and is supplemented with purchased water.
- o Maine - Eleven non-contiguous water systems obtain their water supply as follows: five systems use groundwater, five systems use surface water and

one system purchases water from a neighboring municipal district.

- o North Carolina - Water supply in 105 non-contiguous divisions is obtained from wells and 2 divisions purchase water from neighboring municipalities.

We believe that the capacities of our sources of supply, and our water treatment, pumping and distribution facilities are generally sufficient to meet the present requirements of our customers. On a continuing basis, we make system improvements and additions to capacity in response to changing regulatory standards, changing patterns of consumption and increases in the number of customers. The various state public utility commissions have generally recognized the operating and capital costs associated with these improvements in setting water rates.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months are affected by drought warnings and restrictions to a higher degree because nonessential and recreational use of water is highest and at times other than the summer months, warnings and restrictions generally have less of an effect on water consumption. In November 2001, a drought warning was declared in nine counties in Pennsylvania, including one of the five counties we serve in southeastern Pennsylvania. A drought warning calls for a 10 to 15 percent voluntary reduction of water use, particularly non-essential uses of water. In February 2002, a drought emergency was declared in 24 counties, including seven of the counties we serve in Pennsylvania. A drought emergency imposes a ban on nonessential water use.

On occasion, there have been other water use restrictions in Pennsylvania and New Jersey during the past three years, however, the restrictions did not have a significant impact on operating revenues and we had sufficient quantities of raw water and maintained adequate storage levels of treated water.

Item 1, Continued

#### Economic Regulation

Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service and authorize the issuance of securities. The regulatory commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and the purchases or sales of property. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. Accordingly, we maintain a rate case management capability to provide that the tariffs of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. Rates for some divisions of our Ohio water utility can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utilities Commission of Ohio. Currently, two of the six regulated divisions in Ohio are operating under such rate ordinances.

The Pennsylvania Public Utility Commission ("PAPUC") permits Pennsylvania water utilities to add a surcharge to their water bills. The revenues earned from the surcharge offsets the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating distribution systems. In general, the capital expenditures are associated with projects that are non-revenue producing, non-expense reducing replacements and rehabilitation distribution system improvements. The surcharge is known as a Distribution System Improvement Charge ("DSIC"). Prior to the DSIC, water utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in base rates is known as regulatory lag. The DSIC is intended to eliminate or reduce regulatory lag that often acted as a

disincentive to water utilities in rehabilitating their distribution systems. The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. The DSIC may never exceed 5% of the base rates in effect. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective. The PAPUC also limits use of the DSIC to periods when a company's return on equity is less than a benchmark it establishes each quarter.

In 2001, the Illinois Commerce Commission issued regulations implementing an infrastructure surcharge mechanism known as a Qualifying Infrastructure Plant Surcharge ("QIPS") for use by Illinois water and wastewater utilities. QIPS is similar to DSIC, however, it is established annually and prospectively based on anticipated qualifying capital expenditures, and it includes a broader range of qualifying capital expenditures, including certain wastewater capital expenditures. Consumers Illinois Water Company has received approval to add a QIPS to its bills in three of its operating divisions beginning January 1, 2002 at various rates ranging from 1.06% to 2.49%. We are currently working to establish DSIC mechanisms in the other states in which we operate.

In general, we believe that Philadelphia Suburban Corporation and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the territories we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable regulatory commissions usually allow only one utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of

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Item 1, Continued

our subsidiaries. In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

- o eminent domain;
- o the right of purchase given or reserved by a municipality or political subdivision when the original franchise was granted; and
- o the right of purchase given or reserved under the law of the state in which the subsidiary was incorporated or from which it received its permit.

The price to be paid upon such an acquisition by the municipal government is usually determined in accordance with applicable law governing the taking of lands and other property under eminent domain. In other instances, the price may be negotiated, fixed by appraisers selected by the parties or computed in accordance with a formula prescribed in the law of the state or in the particular franchise or charter. Generally, our strategy is to acquire additional water and wastewater systems, maintain our existing systems, and actively oppose efforts by municipal governments to acquire any of our operations, particularly for less than the fair market value of our operations or where the municipal government seeks to acquire more than it is entitled to under the applicable law or agreement.

There are two matters in Ohio that involve the attempted acquisition or condemnation of certain assets of our Ohio water utility.

In Ashtabula County, Consumers Ohio Water Company provides water service to several municipalities and to areas of the county that are located outside of these municipalities. Ashtabula County has proposed, under a 1959 agreement with Consumers Ohio Water Company, to purchase certain assets of Consumers Ohio Water Company that are located outside of these municipalities. This proposal resulted in litigation over the question of whether Ashtabula County's right to purchase includes all of the assets located outside of these municipalities or only those assets that are not essential for providing service to these municipalities. The court denied the County's request to acquire all assets outside of these municipalities; yet, the assets which may be purchased have not been defined. A court hearing has been scheduled in mid-2002 to define the assets that may be purchased. It is not certain that the County will proceed with an acquisition if all the assets cannot be purchased. If the County does proceed to acquire all or some of these assets, we believe that Consumers Ohio Water Company will be entitled to fair market value for these assets, which we believe will be in excess of the book value for these assets.

The City of Geneva in Ashtabula County, Ohio, has passed an ordinance seeking authorization to condemn the assets of Consumers Ohio Water Company that are located in Geneva. The issue was submitted to a referendum in November 2000, whereby voters by a margin of 16 votes affirmed the ordinance. The City has engaged a consulting firm to assist it in valuing the assets that may be condemned. If the City condemns these assets, we believe that Consumers Ohio Water Company will be entitled to fair market value for these assets, which we believe will be in excess of the book value for these assets. The total number of customers included in the Ashtabula and Geneva systems discussed above represent approximately 1% of our total customer base.

#### Environmental Regulation

The provision of water and wastewater services is governed primarily by the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and state and federal regulations issued under these laws by the Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish criteria and standards for drinking water and for discharges into the

#### Item 1, Continued

waters of the United States. The states may have the right to establish criteria and standards that are stricter than those established by the Environmental Protection Agency. In addition, we are subject to federal and state laws and other regulations relating to residual waste disposal, dam safety and other operations of our subsidiaries.

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

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

The Safe Drinking Water Act of 1974 established a standard for nitrate, a regulated inorganic chemical used extensively in crop fertilization. In 1999 and 2000, elevated levels of nitrate were observed in the Vermilion River, a water supply source for Consumers Illinois Water Company. As a result of the nitrate levels, in December 2000 Consumers Illinois Water Company completed construction of a nitrate-removal facility for its Vermilion River source. The facility has operated effectively since then to keep nitrate levels at the Danville Water Treatment Plant in compliance with the drinking water standard. The project cost of approximately \$5.7 million is being recovered in water rates.

The EPA may issue a final rule for radon in the future, although the EPA has postponed the issuance of these rules many times in the past. If a rule is issued, limits for radon would probably become effective 4 or 5 years later. We anticipate this rule may establish a radon level that would require treatment at a small number of our wells. The capital costs to comply with the anticipated limit are expected to total less than \$1 million. If the states in which we operate elect not to implement general radon reduction programs (Multi-Media Mitigation), then a lower limit for radon may apply and a larger number of wells



would be affected. It is expected that states will adopt Multi-Media Mitigation programs. Whether or not states adopt these programs, we expect that future costs associated with radon treatment will be fully recoverable in water rates.

The Safe Drinking Water Act provides for the regulation of radionuclides other than radon, such as radium and uranium. In December 2000, the EPA issued a final rule regulating certain radionuclides other than radon. The rule will become effective in December 2003 and no significant impact on our operations or financial condition is anticipated from the new rulemaking. As a result of revised testing procedures under the new regulation, additional treatment or alternate sources of water supply may be required for a small number of groundwater sources in one of our divisions. We believe the costs for additional treatment or alternate sources of water supply will be fully recoverable in water rates.

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Item 1, Continued

In order to eliminate or inactivate microbial organisms, the Surface Water Treatment Rule and the Interim Enhanced Surface Water Treatment Rule were issued by the EPA to improve disinfection or filtration. The EPA developed the Disinfectants-Disinfection By-products Rule to reduce consumers' exposure to disinfectants and by-products of the disinfection process. In December 1998, the EPA issued new rules on disinfection and on surface water treatment. Our large surface water systems are in compliance with these rulemakings, including the additional provisions that became effective in January 2002. In July 2000, construction was completed on a \$35 million water treatment plant at one of our Pennsylvania operating companies. This new plant replaced an aged, lower-capacity facility and allows us to maintain compliance with the Surface Water Treatment Rule, continue to maintain compliance with anticipated future regulations. The cost of the plant is being fully recovered in rates. The plant is currently operating under an agreement with a state regulatory agency while data is being collected to demonstrate the effective performance of the plant's innovative technologies. This plant has met and continues to meet all drinking water standards. Groundwater and smaller surface water systems have until December 2003 to comply with the rules on disinfection and on surface water treatment. We are currently developing a new groundwater source for a small surface water system in Maine, and in the future may be required to install filtration for a surface water supply in Maine. A number of small groundwater systems in New Jersey and Pennsylvania may be reclassified as being influenced by surface water. This may require additional treatment or the development of replacement sources of supply over time, and that could cost approximately \$5 million. It is expected that these capital expenditures would be fully recoverable in water rates and would represent a small portion of our typical annual capital expenditures.

We conduct extensive water quality monitoring beyond what is required by the regulations, including monitoring for contaminants for which health advisories or other limits have been published or proposed, but for which drinking water standards are not in effect. In the course of this monitoring, contaminants may be identified that may prompt us to take a water supply source out of service or add treatment at the water supply source. Where a source of contamination can be identified, we pursue recovery of response costs from responsible parties. In April 2000, the gasoline additive Methyl tert-Butyl Ether ("MtBE") was discovered in a Consumers New Jersey production well at levels exceeding the New Jersey drinking water standard. The well was immediately taken out of service and alternate water supplies were obtained through existing wells. The New Jersey Department of Environmental Protection identified the source of the MtBE as a nearby gasoline station. The company responsible for the contamination has reimbursed us for expenses incurred to-date and we expect to continue to be reimbursed for the future costs associated with developing a long-term replacement supply.

In January 2001, the EPA issued a final rule for arsenic that lowers the limit to a more stringent level effective by 2006, with a provision for further time extensions for small systems. Currently, two small well systems slightly exceed the new arsenic levels and will require additional treatment. The cost of maintaining compliance with new rulemakings is expected to be fully recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

Additional rules dealing with water treatment and disinfection are anticipated during 2002, and are not expected to have a material impact on our results of operations or financial condition.

## Item 1, Continued

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

Residual and Solid Waste Disposal - The handling and disposal of residuals and solids from water and wastewater treatment facilities are governed by state and federal laws and regulations. Water treatment residuals and solids are a combination of the chemicals used in the treatment process and the silt and other materials removed from the raw water. Most of our water treatment residuals and solids are disposed of in company-owned, dedicated landfills, or by land application by a licensed contractor. A small portion of our water treatment residuals and solids are disposed of in state-approved landfills owned by others or in a liquid form into municipal sewer systems. Wastewater residuals and solids result from the treatment of wastewater, and these "sludges" are disposed of in approved landfills, transferred to larger wastewater treatment facilities or applied to farmland. We currently maintain all required permits for our water and wastewater treatment facilities and our dedicated landfills. Additional capital expenditures and operating costs in connection with the management and disposal of residuals and solids from our water and wastewater facilities may be required in the future, particularly if changes are made in the requirements of the applicable Federal or state laws. We believe that these capital expenditures would be fully recoverable in our rates.

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

In Pennsylvania, the Department of Environmental Protection has recently adopted the use of a new formula for determining the magnitude of the Probable Maximum Flood. We are studying our dams to determine what improvements may be needed to our dams as a result of this new calculation. As a result of the initial results of the studies, we have identified three dams that could require capital improvements of approximately \$7 million in aggregate. We believe that these capital expenditures that could be required by the new formulas would be fully recoverable in our rates. In Ohio, the Department of Environmental Resources has adopted the use of the new formula. We are studying our dams in Ohio to determine the required improvements. Based on the preliminary results, we believe that capital expenditures of approximately \$2.2 million in aggregate will be required on three dams over the next four years.

## Employee Relations

As of December 31, 2001, we employed a total of 951 full-time persons. Our subsidiaries are parties to agreements with labor unions covering 456 employees. We consider our employee relations to be good.

## Item 2. Properties.

Our properties consist of transmission and distribution mains and conduits, water treatment plants, pumping facilities, wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water. Substantially all of our properties are owned by our subsidiaries and are subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For certain properties that we acquired through the exercise of the power of eminent domain and certain other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain approximately 7,690 miles of transmission and distribution mains, 19 water treatment plants and 14 wastewater treatment plants. Some

properties are leased under long-term leases. The following table indicates our net utility plant as of December 31, 2001 by service area:

	Net Property, Plant and Equipment (000's)
Suburban Philadelphia	\$ 842,410
Pennsylvania*	129,174
Ohio	150,909
Illinois	124,442
New Jersey	79,571
Maine	34,628
North Carolina	10,452
Inter-company eliminations and other	(3,471)
	-----
	\$1,368,115
	=====

\*Other than suburban Philadelphia.

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

Our corporate offices are leased from Pennsylvania Suburban Water Company and located in Bryn Mawr, Pennsylvania.

### Item 3. Legal Proceedings

There are various legal proceedings in which we are involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of our properties is the subject that are expected to have a material effect on our financial position, results of operations or cash flows.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2001.

### Executive Officers of the Registrant

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

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## PART II

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

Our common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 1, 2002, there were approximately 21,056 holders of record of our common stock.

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

	First	Second	Third	Fourth	Year
2001	-----				
Operating revenues	\$70,193	\$77,240	\$84,726	\$75,121	\$307,280
Operations and maintenance expense	26,186	26,462	28,994	30,243	111,885
Net income available to common stock	13,085	15,432	19,279	12,209	60,005
Basic net income per common share	0.19	0.23	0.28	0.18	0.88
Diluted net income per common share	0.19	0.22	0.28	0.18	0.87
Dividend paid per common share	0.124	0.124	0.124	0.13248	0.504
Dividend declared per common share	0.124	0.124	0.25648	-	0.504
Price range of common stock					
- high	19.39	20.40	23.28	24.64	24.64

- low	15.65	16.60	18.66	20.80	15.65
2000					
Operating revenues	\$64,208	\$68,494	\$72,123	\$69,189	\$274,014
Operations and maintenance expense	24,928	24,350	25,037	27,426	101,741
Net income available to common stock	10,246	13,565	16,539	12,434	52,784
Basic net income per common share	0.16	0.21	0.26	0.19	0.82
Diluted net income per common share	0.16	0.21	0.25	0.18	0.81
Dividends paid per common share	0.115	0.115	0.115	0.124	0.4696
Dividends declared per common share	0.115	0.115	0.239	-	0.4696
Price range of common stock					
- high	14.08	15.96	15.56	19.95	19.95
- low	10.56	11.60	12.80	13.56	10.56

All per share data as presented has been adjusted for the 2001 5-for-4 common stock split effected in the form of a stock distribution (described below). High and low prices of our common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividends paid in December 2001 of \$0.13248 per share and December 2000 of \$0.124 per share were declared in August 2001 and August 2000, respectively.

Net income available to common stock and net income per common share for 2000 includes the partial recovery of the merger costs related to the Consumers Water Company merger as follows: \$972,000 (\$1,059,000 pre-tax) or \$0.02 per share in the second quarter and \$1,264,000 (\$2,982,000 pre-tax) or \$0.02 per share in the third quarter.

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#### Item 5, Continued

We have paid common dividends consecutively for 57 years. Effective December 1, 2001, our Board of Directors authorized an increase of 6.9% in the dividend rate over the amount Philadelphia Suburban Corporation has historically paid. As a result of this authorization, beginning with the dividend payment in December, the annual dividend rate increased to \$0.53 per share. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the Consumers Water Company pooling, our common dividends paid have averaged 65.3% of income from continuing operations.

In August 2001, our Board of Directors declared a 5-for-4 common stock split effected in the form of a 25% stock distribution for all common shares outstanding, to shareholders of record on November 16, 2001. The new shares were distributed on December 1, 2001. PSC's par value of \$0.50 per share remained unchanged and \$6,829,000 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

#### Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2001 Annual Report to Shareholders filed as Exhibit 13.9 to this Form 10-K Report is incorporated by reference herein.

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information appearing in the section captioned "Management's Discussion and Analysis" from the portions of our 2001 Annual Report to Shareholders filed as Exhibit 13.9 to this Form 10-K Report is incorporated by reference herein.

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#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest

rates and short-term debt, which is at floating interest rates. As of December 31, 2001, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for fixed-rate, long-term debt are as follows:

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Long-term debt (fixed rate)	\$14,935	\$34,945	\$39,972	\$40,961	\$17,130	\$383,512	\$531,455	\$562,740
Average interest rate	6.54%	6.75%	6.36%	7.22%	7.20%	7.02%	6.96%	

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available-for-sale" marketable equity securities. As of December 31, 2001, our carrying value of marketable equity securities was \$6,425,000, which reflects the market value of such securities. The market risks that we are exposed to are consistent with the risks that we were exposed to in the prior year.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income and Comprehensive Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" "Consolidated Statements of Capitalization" and "Notes to Consolidated Financial Statements" from the portions of our 2001 Annual Report to Shareholders filed as Exhibit 13.9 to this Form 10-K Report is incorporated by reference herein. Also, the information appearing in the section captioned "Reports on Financial Statements" from the portions of our 2001 Annual Report to Shareholders filed as Exhibit 13.9 to this Form 10-K Report is incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the section captioned "Information Regarding Nominees and Directors" of the Proxy Statement relating to our May 16, 2002, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Executive Officers of the Registrant

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

Name	Age	Position with the Registrant and date of election (1)
Nicholas DeBenedictis	56	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Pennsylvania Suburban Water Company (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Morrison Coulter	65	President, Pennsylvania Suburban Water Company - Philadelphia Suburban Division (December 2001 to present); President, Philadelphia Suburban Water Company (January 1999 to December 2001); Senior Vice President - Production, Philadelphia Suburban Water Company (February 1996 to January 1999); Vice President - Production, Philadelphia Suburban Water Company (April 1989 to February 1996) (3)
Richard R. Riegler	55	Senior Vice President - Engineering and Environmental Affairs (January 1999 to present); Senior Vice President - Operations, Philadelphia

Roy H. Stahl	49	Executive Vice President and General Counsel (May 2000 to present); Secretary (June 2001 to present); Senior Vice President and General Counsel (April 1991 to May 2000) (5)
David P. Smeltzer	43	Senior Vice President - Finance and Chief Financial Officer (December 1999 to present); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (6)

(1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Registrant. Officers serve at the discretion of the Board of Directors.

(2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.

(3) Mr. Coulter was Superintendent of Pumping Facilities from 1971 to 1982. From 1982 to 1987 he served as Manager - Electrical/Mechanical Department and from 1987 to 1989 he was Assistant Vice President - Production.

(4) Mr. Riegler was Chief Engineer of Philadelphia Suburban Water Company from 1982 to 1984. He then served as Vice President and Chief Engineer from 1984 to 1986 and Vice President of Operations from 1986 to 1989.

(5) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President - Administration and Corporate Counsel of the Registrant, and from May 1988 to April 1991 he was Vice President and General Counsel of the Registrant.

(6) Mr. Smeltzer was Vice President - Controller of Philadelphia Suburban Water Company from March, 1986 to March 1991.

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#### Item 11. Executive Compensation

The information appearing in the sections captioned "Executive Compensation" of the Proxy Statement relating to our May 16, 2002, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Ownership of Common Stock" of the Proxy Statement relating to our May 16, 2002, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

#### Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Certain Relationships and Related Transactions" of the Proxy Statement relating to our May 16, 2002, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

### PART IV

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

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

Report of Management

Independent Accountants' Report of PricewaterhouseCoopers LLP - 2001

Consolidated Balance Sheets - December 31, 2001 and 2000

Consolidated Statements of Income and Comprehensive Income - 2001, 2000 and 1999

Consolidated Cash Flow Statements - 2001, 2000, and 1999

Consolidated Statements of Capitalization - December 31, 2001 and 2000

Notes to Consolidated Financial Statements

Financial Statement Schedules. The financial statement schedules, or supplemental schedules, filed as part of this annual report on Form 10-K are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes thereto.

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Item 14, Continued

Pursuant to Rule 14a-3 Note 1, filed herein is the independent auditors' report of KPMG LLP for the year ended December 31, 1999.

#### INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors  
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated statements of income and comprehensive income and cash flow of Philadelphia Suburban Corporation and subsidiaries for the year ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of Philadelphia Suburban Corporation and subsidiaries for the year ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
January 31, 2000

Reports on Form 8-K.

Philadelphia Suburban Corporation filed no reports on Form 8-K during the quarter ended December 31, 2001.

Exhibits, Including Those Incorporated by Reference. The following is a list of exhibits filed as part of this annual report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference. For exhibits incorporated by reference, the location of the exhibit in the previous filing is indicated in parentheses. The page numbers listed refer to page numbers where such exhibits are located using the sequential numbering system specified by Rules 0-3 and 403.

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EXHIBIT INDEX

Exhibit No.		Page No.
-----		-----
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	-
3.2	By-Laws, as amended (14) (Exhibit 3.2)	-
3.3	Amendment to Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares to 41,770,819 and to provide that 40,000,000 of such shares be shares of Common Stock (14) (Exhibit 3.3)	-
3.4	Amendment to Amended and Restated Articles of Incorporation, as amended, designating the Series B Preferred Stock (14) (Exhibit 3.4)	-
3.5	Amendment to Section 3.03 and addition of Section 3.17 to Bylaws (16) (Exhibits 1 and 2)	-
3.6	Amendment to Amended and Restated Articles of Incorporation, designating the terms of the Series A Junior Participating Preferred Shares (18) (Exhibit 3.6)	-
3.7	Amendment to Amended and Restated Articles of Incorporation, to increase the number of authorized shares to 101,770,819 and to provide that 100,000,000 of such shares be shares of Common Stock (20) (Annex E)	-
3.8	Amendment to Section 3.03 of the Bylaws (23) (Exhibit 3.8)	-
3.9	Amendment to Section 5.05(a) to the Amended and restated Articles of Incorporation (24) (Annex A)	-
3.10	Amendments to Sections 2.01(a), 2.02 and 3.08(b) of the Bylaws (25) (Exhibit 3.10)	-
3.11	Restated Articles of Incorporation (as of May 17, 2001)	28
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities(now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)	-
4.2	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)	-
4.3	Twenty-first Supplemental Indenture dated as of August 1, 1985 (3) (Exhibit 4.2)	-
4.4	Twenty-second Supplemental Indenture dated as of April 1, 1986 (4) (Exhibit 4.3)	-
4.5	Twenty-third Supplemental Indenture dated as of April 1, 1987 (5) (Exhibit 4.4)	-
4.6	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (6) (Exhibit 4.5)	-
4.7	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (7) (Exhibit 4.6)	-

Exhibit No.		Page No.
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4.8	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (8) (Exhibit 4.12)	-
4.9	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	-
4.10	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (9) (Exhibit 4.15)	-
4.11	Twenty-ninth Supplemental Indenture dated as of March 30, 1995 (11) (Exhibit 4.17)	-
4.12	Thirtieth Supplemental Indenture dated as of August 15, 1995 (12) (Exhibit 4.18)	-
4.13	Thirty-first Supplemental Indenture dated as of July 1, 1997 (15) (Exhibit 4.22)	-
4.14	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (17) (Exhibit 1)	-
4.15	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and BankBoston, N.A., as Rights Agent (21) (Exhibit 4.25)	-
4.16	Thirty-second Supplement Indenture, dated as of October 1, 1999 (22) (Exhibit 4.26)	-



4.17	Thirty-third Supplemental Indenture, dated as of November 15, 1999. (23) (Exhibit 4.27)	-
4.18	Revolving Credit Agreement between Philadelphia Suburban Water Company and PNC Bank National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999. (23) (Exhibit 4.27)	-
4.19	First Amendment to Revolving Credit Agreement dated as of November 28, 2000, between Philadelphia Suburban Water Company and PNC Bank, National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999. (25) (Exhibit 4.19)	-
4.20	Second Amendment to Revolving Credit Agreement dated as of December 18, 2001, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, First Union National Bank, N.A., Fleet National Bank dated as of December 22, 1999.	37
4.21	Thirty-fourth Supplemental Indenture, dated as of October 15, 2001.	43
4.22	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002.	79
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	-
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	-
10.3	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (7) (Exhibit 10.4)	-
10.4	Supplemental Executive Retirement Plan, effective December 1, 1989* (7) (Exhibit 10.5)	-

Exhibit No.		Page No.
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10.5	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)	-
10.6	Employment letter agreement with Mr. Nicholas DeBenedictis* (1) (Exhibit 10.8)	-
10.7	1994 Equity Compensation Plan, as amended by Amendment 1994-1* (13) (Exhibit 10.10)	-
10.8	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (11) (Exhibit 10.12)	-
10.9	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (12) (Exhibit 10.13)	-
10.10	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (12) (Exhibit 10.14)	-
10.11	Amendment 1994-2 to 1994 Equity Compensation Plan, as amended* (14) (Exhibit 10.16)	-
10.12	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997* (14) (Exhibit 10.18)	-
10.13	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (14) (Exhibit 10.19)	-
10.14	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (14) (Exhibit 10.21)	-
10.15	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (14) (Exhibit 10.22)	-
10.16	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (14) (Exhibit 10.23)	-
10.17	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (14) (Exhibit 10.24)	-
10.18	First Amendment to Supplemental Executive Retirement Plan* (14) (Exhibit 10.25)	-
10.19	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSC Securities, Inc., and PaineWebber Incorporated (15) (Exhibit 10.26)	-
10.20	Philadelphia Suburban Corporation Director Deferral Plan* (21)	-

(Exhibit 10.28)

10.21 Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997\* (21) (Exhibit 10.29) -

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Exhibit No.		Page No.
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10.22	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (21) (Exhibit 10.30)	-
10.23	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (21) (Exhibit 10.32)	-
10.24	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (21) (Exhibit 10.33)	-
10.25	1999 Annual Cash Incentive Compensation Plan* (21) (Exhibit 10.34)	-
10.26	The Philadelphia Suburban Corporation 1994 Equity Compensation Plan (as Amended and Restated Effective March 3, 1998)* (19) (Exhibit A)	-
10.27	Amendment 1998-1 to The Philadelphia Suburban Corporation 1994 Equity Compensation Plan* (20) (Annex F)	-
10.28	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Commerce Capital Markets dated September 29, 1999 (22) (Exhibit 10.37)	-
10.29	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 1, 1999 (22) (Exhibit 10.38)	-
10.30	2000 Annual Cash Incentive Compensation Plan * (23) (Exhibit 10.39)	-
10.31	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and David P. Smeltzer dated December 1, 1999. (23) (Exhibit 10.40)	-
10.32	Placement Agency Agreement between Philadelphia Suburban Water Company and Merrill Lynch & Co., PaineWebber Incorporated, A.G. Edwards & Sons, Inc., First Union Securities, Inc., PNC Capital Markets, Inc. and Janney Montgomery Scott, Inc., dated as of November 15, 1999 (23) (Exhibit 10.41)	-
10.33	Amendment 2000-1 to 1994 Equity Compensation Plan* (24) (Exhibit 10.33)	-
10.34	2001 Annual Cash Incentive Compensation Plan* (26) (Exhibit 10.34)	-
10.35	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and The GMS Group, L.L.C, dated October 23, 2001	117
10.36	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 15, 2001	140

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Exhibit No.		Page No.
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10.37	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated August 7, 2001*	164
10.38	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated August 7, 2001*	176
10.39	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated August 7, 2001*	186
10.40	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and David P. Smeltzer, dated August 7, 2001*	199

13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 1993 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993 (9) (Exhibit 13.1)	-
13.2	Selected portions of Annual Report to Shareholders for the year ended December 31, 1994 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1994 (10) (Exhibit 13.2)	-
13.3	Selected portions of Annual Report to Shareholders for the year ended December 31, 1995 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1995 (13) (Exhibit 13.3)	-
13.4	Selected portions of Annual Report to Shareholders for the year ended December 31, 1996 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1996 (14) (Exhibit 13.4)	-
13.5	Selected portions of Annual Report to Shareholders for the year ended December 31, 1997 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1997 (18) (Exhibit 13.5)	-
13.6	Selected portions of Annual Report to Shareholders for the year ended December 31, 1998 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1998 (21) (Exhibit 13.6)	-
13.7	Selected portions of Annual Report to Shareholders for the year ended December 31, 1999 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1999 (23) (Exhibit 13.7)	-

Exhibit No.		Page No.
13.8	Selected portions of Annual Report to Shareholders for the year ended December 31, 2000 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2000 (25) (Exhibit 13.8)	-
13.9	Selected portions of Annual Report to Shareholders for the year ended December 31, 2001 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2001	209
21.	Subsidiaries of Philadelphia Suburban Corporation	253
23.1	Consent of Independent Accountants - PricewaterhouseCoopers LLP	254
23.2	Consent of Independent Accountants - KPMG LLP	255
24.	Power of Attorney (set forth as a part of this report)	26

- Notes -

Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992.
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.
- (4) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.
- (5) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.
- (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1994.

- (11) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (12) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1995.
- (14) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (16) Filed as an Exhibit to Form 8-K filed August 7, 1997.
- (17) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed on March 17, 1998.
- (18) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1997.
- (19) Filed as Exhibit A to definitive Proxy Statement dated April 7, 1998.
- (20) Filed as an Annex to Registration Statement on Form S-4 filed on September 11, 1998.
- (21) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998.
- (22) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
- (23) Filed as Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.
- (24) Filed as Annex A to definitive Proxy Statement dated April 10, 2000.
- (25) Filed as Exhibit to Annual Report on Form 10-K for the year ended December 31, 2000.
- (26) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

\* Indicates management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PHILADELPHIA SUBURBAN CORPORATION

By /s/ Nicholas DeBenedictis

-----  
 Nicholas DeBenedictis  
 President and Chairman

Date: March 20, 2002

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

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

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/s/ Nicholas DeBenedictis

-----  
 Nicholas DeBenedictis

/s/ David P. Smeltzer

-----  
 David P. Smeltzer

President and Chairman  
(principal executive officer)  
and Director

Senior Vice President - Finance and  
Chief Financial Officer

/s/ Mary C. Carroll

-----  
Mary C. Carroll  
Director

/s/ G. Fred DiBona, Jr.

-----  
G. Fred DiBona, Jr.  
Director

/s/ Richard H. Glanton

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Richard H. Glanton  
Director

/s/ Alan Hirsig

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Alan Hirsig  
Director

/s/ John E. Menario

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John E. Menario  
Director

/s/ John F. McCaughan

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John F. McCaughan  
Director

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Andrew D. Seidel  
Director

/s/ Richard L. Smoot

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Richard L. Smoot  
Director

PHILADELPHIA SUBURBAN CORPORATION  
RESTATED ARTICLES OF INCORPORATION  
(As of May 17, 2001)

ARTICLE I  
NAME

The name of the Corporation is Philadelphia Suburban Corporation.

ARTICLE II  
ADDRESS OF REGISTERED OFFICE

The location and address of the registered office of the Corporation in this Commonwealth is 762 Lancaster Avenue, Bryn Mawr, Montgomery County, Pennsylvania, 19010.

ARTICLE III  
PURPOSE

The purpose or purposes for which the Corporation is incorporated under the Pennsylvania Business Corporation Law of 1988 are to engage in, and to do any lawful act concerning, any or all lawful business for which corporations may be incorporated under said Business Corporation Law, including but not limited to, manufacturing, processing, owning, using and dealing in personal property of every class and description, engaging in research and development, furnishing services, and acquiring, owning, using and disposing of real property of any nature whatsoever.

ARTICLE IV  
CAPITAL STOCK

4.01 The aggregate number of shares which the Corporation shall have authority to issue is 101,770,819 shares, divided into 100,000,000 shares of Common Stock, par value \$.50 per share, and 1,770,819 shares of Series Preferred Stock, par value \$1.00 per share. The Board of Directors shall have the full authority permitted by law to fix by resolution full, limited, multiple or fractional, or no voting rights, and such designations, preferences, qualifications, privileges, limitations, restrictions, options, conversion rights, and other special or relative rights of any class or any series of any class that may be desired.

4.02 Series A Preferred Shares. The first series of the Series Preferred Stock, par value \$1.00 per share, shall consist of 100,000 shares and shall be designated as Series A Junior Participating Preferred Shares (the "Series A Preferred Shares").

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4.02 (a) Dividends and Distributions.

(1) The rate of dividends payable per share of Series A Preferred Shares on the first day of January, April, July and October in each year or such other quarterly payment date as shall be specified by the Board of Directors (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of the Series A Preferred Shares, shall be (rounded to the nearest cent) equal to the greater of (i) \$10.00 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in cash, based upon the fair market value at the time the non-cash dividend or other distribution is declared or paid as determined in good faith by the Board of Directors) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or

otherwise), declared on the Common Stock, \$.50 par value, of the Corporation since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of the Series A Preferred Shares. Dividends on the Series A Preferred Shares shall be paid out of funds legally available for such purpose. In the event the Corporation shall at any time after February 19, 1988 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amounts to which holders of Series A Preferred Shares were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(2) Dividends shall begin to accrue and be cumulative on outstanding Series A Preferred Shares from the Quarterly Dividend Payment Date next preceding the date of issue of such Series A Preferred Shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of Series A Preferred Shares entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the Series A Preferred Shares in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

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4.02 (b) Voting Rights. In addition to any other voting rights required by law, the holders of Series A Preferred Shares shall have the following voting rights:

(1) Subject to the provision for adjustment hereinafter set forth, each Series A Preferred Share shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of Series A Preferred Shares were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(2) Except as otherwise provided herein, in the articles of the Corporation or by law, the holders of Series A Preferred Shares and the holders of Common Stock (and the holders of shares of any other series or class entitled to vote thereon) shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

4.02(c) Reacquired Shares. Any Series A Preferred Shares purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued Series Preferred Stock and may be reissued as part of a new series of Series Preferred Stock to be created by resolution or resolutions of the Board of Directors.

4.02(d) Liquidation, Dissolution or Winding Up. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Series A Preferred Shares shall be entitled to receive the greater of (a) \$100.00 per share, plus accrued dividends to the date of distribution, whether or not earned or declared, or (b) an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 100 times the aggregate amount to be distributed per share to holders of Common Stock. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the

outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount to which holders of Series A Preferred Shares were entitled immediately prior to such event pursuant to clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

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4.02(e) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the Series A Preferred Shares shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Shares shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

4.02(f) No Redemption. The Series A Preferred Shares shall not be redeemable.

4.02(g) Ranking. The Series A Preferred Shares shall rank junior to all other series of the Corporation's Series Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

4.02(h) Fractional Shares. Series A Preferred Shares may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Shares.

4.03 Series B Preferred Shares. The second series of the Series Preferred Stock, par value \$1.00 per share, shall consist of 32,200 shares and shall be designated as the Series B Preferred Stock.

4.03(a) Designation. The shares of such series of Preferred Stock shall be designated as "Series B Preferred Stock."

4.03(b) Authorized Number. The number of shares constituting the Series B Preferred Stock shall be 32,200 shares.

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4.03(c) Dividends. Beginning on March 1, 1997, and on each June 1, September 1, December 1 and March 1 thereafter, the holders of shares of Series B Preferred Stock shall be entitled to receive a quarterly dividend in arrears equal to \$1.5125 per share of Series B Preferred Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) out of funds legally available for such purchase. Such dividends shall be payable only when, as and if declared by the Board of Directors, provided that quarterly dividends that are not so paid shall be cumulative, and accumulations of dividends shall bear interest at the rate of 6.05% per annum. No dividend or other distribution shall be declared or paid (other than dividends payable in shares of common stock of the Corporation, par value \$.50 per share (the "Common Stock") or options to purchase or rights to subscribe for Common Stock, or securities by their terms convertible into or exchangeable for Common Stock, or options to purchase or rights to subscribe for such convertible or exchangeable securities, provided that such securities rank junior to the Series B Preferred Stock with respect to the payment of dividends and liquidation proceeds) on any shares of the Corporation's capital stock ranking junior to the Series B Preferred Stock as to payment of dividends unless all dividends on the Series B Preferred Stock



accrued for all past quarterly dividend periods shall have been paid and the full dividend thereon for the current dividend period shall be paid or declared and set apart for payment. The Corporation's Series B Preferred Stock shall rank senior to its Series A Preferred Stock and its Common Stock with respect to the right to receive dividends and other distributions.

#### 4.03(d) Rights on Liquidation, Dissolution, Winding-Up.

(1) In the event of any liquidation, dissolution or winding-up of the affairs of the Corporation (collectively, a "Liquidation"), whether voluntary or involuntary, before any payment of cash or distribution of other property is made to the holders of the Common Stock or any other class or series of shares ranking on Liquidation junior to the Series B Preferred Stock, the holders of Series B Preferred Stock shall be entitled to receive out of the assets of the Corporation legally available for distribution to its shareholders, an amount per share (rounded to the nearest \$0.01 equal to the Liquidation Preference (as defined below), plus an amount equal to any accrued but unpaid cumulative dividends and any interest accrued thereon. The Liquidation Preference shall be equal to \$100.00 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares).

(2) If upon the occurrence of any Liquidation, whether voluntary or involuntary, the assets and funds to be distributed among holders of Series B Preferred Stock and any other class or series of stock ranking equal to the Series B Preferred Stock as to distribution of assets upon Liquidation shall be insufficient to permit the payment to the holders of the preferential amounts described in Section 4.03 (d) (1), then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among holders of Series B Preferred Stock and any other class or series of stock ranking equal to the Series B Preferred Stock as to distribution of assets upon Liquidation in accordance with the sums that would be payable on such distribution if all sums payable thereon to holders of all shares of such classes or series were paid in full.

(3) If upon the occurrence of any liquidation, the assets and funds thus distributed among holders of Series B Preferred Stock shall be sufficient to permit the payment to such holders of the preferential amounts described in 4.03(d) (1), then the holders of shares of Series B Preferred Stock shall be entitled to no further participation in the distribution of the assets of the Corporation and any remaining net assets of the Corporation may be distributed to the holders of Common Stock and any other class or series of stock ranking junior to the Series B Preferred Stock as to the distribution of assets upon Liquidation in accordance with their relative liquidation preferences. Written notice of such liquidation, dissolution or winding up, stating a payment date, the amount of the Liquidation payments and the place where said Liquidation payments shall be payable, shall be given by mail, postage prepaid, not less than 30 days prior to the payment date stated therein, to the holders of record of Series B Preferred Stock, such notice to be addressed to each such holder at his post office address as shown by the records of the Corporation.

(4) Except as provided in 4.03(e), a consolidation or merger of the Corporation into or with any other corporation or corporations shall not be deemed to be a liquidation, dissolution or winding up of the Corporation within the meanings of the provisions of 4.03(d).

(5) The Company's Series B Preferred Stock shall rank senior to its Series A Preferred Stock with respect to the right to the distribution of the Company's assets upon liquidation.

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4.03(e) Merger, Consolidation, etc. The Corporation shall give notice to each holder of Series B Preferred Stock at least 20 days prior to the effective date of (i) any consolidation or merger of the Corporation with or into any other corporation or corporations (other than a merger or consolidation in which the holders of Series B Preferred Stock receive securities of the surviving corporation having substantially similar rights to the Series B Preferred Stock and in which the shareholders of the Corporation immediately prior to the transaction will be the holders of at least a majority of the voting securities of the surviving corporation immediately after the transaction); (ii) a sale, conveyance or disposition of all or substantially all of the assets of the Corporation; or (iii) the effectuation by the Corporation of a transaction or series of related transactions in which more than 50% of the voting power of the Corporation is disposed of. The holders of a majority of the Series B Preferred

Stock shall be entitled, by electing prior to the effective date of any of the foregoing types of transactions, to require the Corporation to treat any such transaction as if it were a Liquidation and to cause the proceeds of such transaction, or any property deliverable from such transaction to be distributed among the shareholders as if such transaction were a Liquidation.

4.03(f) Protective Provisions. So long as any shares of Series B Preferred Stock shall remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of the shares of Series B Preferred Stock at the time outstanding adopt any amendment to its Articles of Incorporation which would adversely affect in any material respect the rights or preferences of shares of the Series B Preferred Stock as set forth in this Statement of Designation.

4.03(g) Conversion. The Series B Preferred Stock shall not be convertible into any other class or series of capital stock of the Corporation.

4.03(h) Redemption.

(1) The Series B Preferred Stock shall not be redeemable by the Corporation prior to November 30, 2001. Thereafter, up to 20% of the number of the number of shares of Series B Preferred Stock originally issued may be called for redemption by the Corporation, in whole or in part, each year starting on December 1, 2001 (the "Redemption Date"), upon 30 days prior written notice, by the payment therefor of an amount per share (rounded to the nearest \$0.01) equal to the sum of (i) the Liquidation Preference and (ii) all accumulations of accrued and unpaid dividends on such outstanding shares of Series B Preferred Stock (together with any accrued interest thereon) through the date of redemption (such amount, the "Redemption Price"). The Corporation's right to redeem shall be cumulative, such that any shares the Corporation has a right to redeem in one year that are not so redeemed, may be redeemed by the Corporation in a subsequent year. At the election of the holders of the Series B Preferred Stock called for redemption by the Corporation, the Redemption Price may be paid in cash or by the delivery of a promissory note of the Corporation in substantially the form attached hereto as Exhibit "A" (the "Note"). The election by the holders of the shares being redeemed shall be made by written notice to the Corporation no less than 15 days prior to the Redemption Date, otherwise the Corporation may elect to pay the Redemption Price in cash.

(2) The Series B Preferred Stock shall not be called for redemption by the holders prior to December 1, 1998. Thereafter, the Series B Preferred Stock may be called for redemption, in whole or in part, by such holders, and thereupon shall be redeemed for cash by the Corporation, upon 30 days prior written notice, from such holders at a per share price equal to the Redemption Price.

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(3) Shares of Series B Preferred Stock are not subject to or entitled to the benefit of a sinking fund.

(4) Shares of Series B Preferred Stock that are redeemed shall be canceled and shall not be reissuable by the Corporation and the Articles of Incorporation of the Corporation shall be appropriately amended to effect a corresponding reduction in the Corporation's authorized capital stock.

(5) If notice of redemption as provided in Section 4.03 (h) (1) above shall have been duly given or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable authorization promptly to give such notice, and if on or before the Redemption Date specified therein the Corporation shall have either deposited the funds necessary for such redemption with, or delivered a Note in the amount of the applicable Redemption to, such bank or trust company in trust for the benefit of the holders of the shares called for redemption, then, notwithstanding that any certificates for shares so called for redemption shall not have been surrendered for cancellation, from and after the Redemption Date, all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest. Any interest accrued on such funds shall be paid to the Corporation from time to time. The aforesaid bank or trust company shall be organized and in good standing under the laws of the United States of America, or the Commonwealth of Pennsylvania, shall be doing business in Pennsylvania, and shall be identified in the notice of redemption.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of two years from such Redemption Date shall, to the extent permitted by law, be released or repaid to the Corporation, after which repayment the holders of the shares so called for redemption shall look only to the Corporation for payment thereof.

ARTICLE V  
MANAGEMENT

5.01 Board of Directors

5.01(a) Number; Classification. The Board of Directors of the Corporation shall consist of such number of directors as shall be fixed from time to time by resolution of the Board adopted by a vote of three-quarters of the entire Board of Directors. Cumulative voting for directors shall not be permitted. The Board of Directors shall be divided into three classes, which shall be as nearly equal in number as possible. Directors of each class shall serve for a term of three years and until their successors shall have been elected and qualified.

5.01(b) Qualifications. Directors of the Corporation need not be residents of Pennsylvania or Shareholders. No person shall be appointed or elected a director of the Corporation unless:

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(1) such person is elected to fill a vacancy in the Board of Directors (including any vacancy resulting from any increase in the authorized number of directors) by a vote of a majority of the entire Board of Directors, and any director so elected shall hold office until the next election of the class for which such director shall have been elected and until a successor shall have been elected and qualified; or

(2) the name of such person, together with such consents and information concerning present and prior occupations, transactions with the Corporation or its subsidiaries and other matters as may at the time be required by or pursuant to the Bylaws, shall have been filed with the Secretary of the Corporation no later than a time fixed by or pursuant to the Bylaws immediately preceding the annual or special meeting at which such person intends to be a candidate for director.

5.01(c) Removal of Directors. Directors of the Corporation may be removed without cause by vote of the shareholders only if authorized in the manner provided in Section 5.05 (b). No decrease or increase in the size of the Board shall shorten or otherwise affect the term of any incumbent director.

5.02 Bylaws. Bylaws may be adopted, amended or repealed by the Board of Directors to the full extent permitted by law.

5.03 Special Meetings. A special meeting of shareholders may be called by the President, the Board of Directors, or shareholders entitled to cast a majority of the votes, which all shareholders are entitled to cast at the particular meeting or by such other officers or persons as may be provided in the Bylaws.

5.04 Amendment of Articles. Any amendment of the Articles of Incorporation may be proposed by either the Board of Directors or by the shareholders. An amendment initiated by the shareholders shall be proposed only by a petition of shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast thereon, setting forth the proposed amendment, which petition shall be directed to and filed with the Board of Directors.

5.05 Fundamental and Other Transactions.

5.05(a) Shareholder Authorization of Corporate Action Recommended by Management. Whenever any corporate action, other than the election of directors, is to be taken by vote of the Shareholders on recommendation of a vote of a majority of the entire Board of Directors, the proposed corporate action, including a Fundamental Transaction (as defined in Section 5.06), shall be authorized upon receiving the minimum vote required for the authorization of such action by statute, after taking into account the express terms of any class or any series of any class of shares of the Corporation with respect to such vote.

5.05(b) Shareholder Authorization of Other Corporate Action. Except as provided in Section 5.05 (a), whenever any corporate action, other than the election of directors, is to be taken by vote of the shareholder, the proposed corporate

action, including a Fundamental Transaction (as defined in Section 5.06), shall be authorized only upon receiving at least three-quarters of the vote which all voting shareholders, voting as a single class, are entitled to cast thereon and, in addition, the affirmative vote of the number or proportion of shares of any class or any series of any class of shares of the Corporation, if any, as shall at the time be required by the express terms of any such class or series of shares of the Corporation.

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5.06 Fundamental Transactions Defined. For the purposes of this Article V, the term "Fundamental Transaction shall mean:

5.06(a) Any of the following, if such action is effected by vote of the shareholders: amendment of the Articles of Incorporation; adoption, amendment or repeal of the Bylaws; a change in the number of directors constituting the entire Board of Directors; or removal of one or more directors; or

5.06(b) Any of the following, if any such transaction requires the approval of the shareholders under the Articles of Incorporation of the Corporation as then in effect or the Business Corporation Law as then in effect with respect to the Corporation: the sale, lease, exchange or other disposition of all or substantially all of the assets of the Corporation; the issuance in a single or one or more related transactions of voting shares of the Corporation sufficient to elect a majority of the directors of the Corporation; or the merger, consolidation, division, reorganization, recapitalization, dissolution, liquidation or winding up of the Corporation.

5.07 Series Preferred Stock Provisions. The provisions of Sections 5.01, 5.03 and 5.04 shall be subject to the express terms of any class or series of any class of the Corporation.

ARTICLE VI  
MISCELLANEOUS

Reservation of Right to Amend. Subject to the provisions of Article V hereof, the Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation in the manner now or hereafter prescribed by the statute, and all rights conferred upon Shareholders herein are granted subject to this reservation.

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SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT is made as of this 18th day of December, 2001, by and among PHILADELPHIA SUBURBAN WATER COMPANY, a Pennsylvania corporation ("Borrower"), the several banks which are parties to this Agreement (each a "Bank" and collectively, "Banks") and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, "Agent").

BACKGROUND

A. Borrower, Agent and certain Banks are parties to a Credit Agreement, dated as of December 22, 1999, as amended by a First Amendment to Credit Agreement dated as of November 28, 2000 (as so amended, the "Credit Agreement"), pursuant to which those Banks agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to \$50,000,000 (the "Loans"). The Loans are evidenced by Borrower's Revolving Credit Notes in the aggregate principal face amount of \$50,000,000 (the "Notes").

B. Borrower, Agent and Banks desire to increase the amount of the facility by \$20,000,000, increase the Commitment of Citizens Bank of Pennsylvania (successor by assignment from Mellon Bank, N.A.) ("Citizens"), add Fleet National Bank ("Fleet") as an additional Bank under the Credit Agreement, modify certain covenants in the Credit Agreement and extend the Termination Date of the facility, all on the terms and subject to the conditions herein set forth.

NOW THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

AGREEMENT

1. Terms. Capitalized terms used herein and not otherwise defined herein shall have the meanings given to such terms in the Credit Agreement.

2. Amendments to Credit Agreement. Effective on December 18, 2001 (the "Effective Date") the Credit Agreement is hereby amended as follows:

(a) The definition of Termination Date in Section 1.1 is hereby amended and restated to read in full as follows:

" "Termination Date": the earlier of (a) December 16, 2002 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein."

(b) Subsection 6.2(vii) is hereby amended and restated to read in full as follows:

"(vii) indebtedness to the Pennsylvania Infrastructure Investment Authority for the purchase of capital assets; and"

(c) The amount of the Total Commitment is hereby increased from \$50,000,000 to \$70,000,000 and any references to "\$50,000,000" in the Credit Agreement shall be changed to "\$70,000,000." \$5,000,000 of such increase shall be allocated to Citizens increasing its Commitment from \$12,500,000 to \$17,500,000 and \$15,000,000 of such increase shall become the Commitment of Fleet upon its joinder as a party to the Credit Agreement as provided hereunder.

(d) To give effect to the increase in the Total Commitment, the joinder of Fleet and the change in the Commitment of Citizens, Schedule I to the Credit Agreement is hereby amended and replaced with Schedule I attached hereto.

3. Joinder of Fleet. Effective on the Effective Date, Fleet hereby joins in and becomes a party to the Credit Agreement with a Commitment of \$15,000,000, agrees to be bound by the provisions of the Credit Agreement and shall have the rights and obligations of a Bank thereunder and under any other

document issued in connection therewith. Fleet hereby makes and agrees to be bound by all of the representations, warranties and agreements set forth in Section 9.6(c) of the Agreement as if it were an assignee of its Commitment under the provisions of Section 9.6.

4. Replacement and Additional Notes. Concurrently with the execution and delivery of this Agreement, Borrower shall execute and deliver to Citizens a replacement Revolving Credit Note in the face amount of \$17,500,000 and to Fleet a Revolving Credit Note in the face amount of \$15,000,000 in each case in the form of Exhibit B-2 attached to the Credit Agreement. Such replacement Revolving Credit Note to Citizens shall evidence any outstanding Revolving Credit Loans and upon receipt thereof the existing Revolving Credit Note to Citizens shall be cancelled and returned to Borrower.

5. Adjusting Payments. Prior to the Effective Date Agent shall notify each Bank as to the adjusting payments which will be required to be made to the outstanding Revolving Credit Loans of each Bank in order to give effect to the increase in the Total Commitment and the increase to and addition of the individual Commitments of certain Banks pursuant to the provisions of Sections 2(c) and 3 above so that after such adjusting payments are made each Bank's outstanding Revolving Credit Loans evidenced by such Bank's Revolving Credit Note shall be in an amount equal to its Commitment Percentage of all outstanding Revolving Credit Loans. On the Effective Date each Bank agrees to pay to the other Banks the amounts, if any, specified by Agent in such notice.

6. Merger of Borrower. Borrower has advised Agent and Banks that on or about December 31, 2001 Borrower and its Pennsylvania affiliates will merge with and into Pennsylvania Suburban Water Company, a Pennsylvania corporation ("PSWC") and has requested that Banks consent to such merger (the "Merger"). Notwithstanding the provisions of Section 6.4, Banks hereby consent to the Merger subject to compliance, to the satisfaction of Agent, with the following terms and conditions: (a) the Merger occurs no later than March 31, 2002 and after giving effect thereto PSWC (i) is and remains a wholly-owned subsidiary of the Parent Company, (ii) has a senior secured indebtedness rating (the "Debt Rating") from S&P of either AA- or A+ and (iii) shall have succeeded to and assumed all of the rights, obligations and liabilities of Borrower under the Credit Agreement and the Notes, (b) immediately after the Merger and after giving effect thereto (assuming that pro forma adjustments are made to the financial statements of Borrower reflecting the Merger) PSWC, as successor Borrower, is in compliance with the Credit Agreement and no Default or Event of Default shall be in existence or result from the Merger, and Borrower shall have delivered to Agent a certificate of a Responsible Officer certifying to the foregoing, (including detailed calculations demonstrating pro forma compliance with all financial covenants), (c) if the Debt Rating of PSWC is A+, the interest rate margin above the Eurodollar Rate for purposes of Section 2.6(b) of the Credit Agreement shall be increased from twenty two and one-half basis points (.225%) to thirty two and one-half basis points (.325%) effective as of the effective date of the Merger, and (d) PSWC, as successor Borrower, shall, at Agent's request, execute and deliver such filings, agreements, documents and instruments as Agent shall have reasonably requested to evidence and confirm the completion of the Merger consistent with the terms and conditions hereof, including evidence from S&P of the Debt Rating of PSWC, and the succession of PSWC as Borrower under the Credit Agreement and the Notes. Agent will provide Banks with notice of the effective date of the Merger and with copies of each such filing, agreement, document and instrument executed and/or delivered by Borrower and/or Agent in compliance with this Section.

7. Loan Documents. Except where the context clearly requires otherwise, all references to the Credit Agreement in any of the Loan Documents or any other document delivered to Banks or Agent in connection therewith shall be to the Credit Agreement as amended by this Agreement.

8. Borrower's Ratification. Borrower agrees that it has no defenses or set-offs against Banks or Agent or their respective officers, directors, employees, agents or attorneys, with respect to the Loan Documents, all of which are in full force and effect, and that all of the terms and conditions of the Loan Documents not inconsistent herewith shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms. Borrower hereby ratifies and confirms its obligations under the Loan Documents as amended hereby and agrees that the execution and delivery of this Agreement does not in any way diminish or invalidate any of its obligations thereunder.

9. Representations and Warranties. Borrower hereby represents and warrants to Agent and Banks that:

(a) Except as otherwise previously disclosed to Agent and Banks, the representations and warranties made in the Credit Agreement, as amended by this Agreement, are true and correct as of the date hereof;

(b) No Default or Event of Default under the Credit Agreement exists on the date hereof; and

(c) This Agreement and the replacement and additional Revolving Credit Notes have been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with its terms.

All of the above representations and warranties shall survive the making of this Agreement.

10. Conditions Precedent. The effectiveness of the amendments set forth herein is subject to the fulfillment, to the satisfaction of Agent and its counsel, of the following conditions precedent on or before the Effective Date:

(a) Borrower shall have delivered to Agent, with copies or counterparts for each Bank as appropriate, the following, all of which shall be in form and substance satisfactory to Agent and shall be duly completed and executed:

- (i) This Agreement;
- (ii) The replacement Revolving Credit Note to Citizens and the additional Revolving Credit Note to Fleet;
- (iii) Copies, certified by the Secretary or an Assistant Secretary of Borrower of resolutions of the board of directors of Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the replacement and additional Revolving Credit Notes and the other documents and transactions contemplated hereby;
- (iv) Copies, certified by its corporate secretary of the articles of incorporation, certificate of formation, and by-laws of Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to Agent;
- (v) Copies of the proposed terms and conditions of the Merger as they exist on the date hereof; and
- (vi) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

(b) The representations and warranties set forth in the Credit Agreement shall be true and correct on and as of the date hereof.

(c) No Default or Event of Default shall have occurred and be continuing as of the date hereof.

(d) Borrower shall have paid to Agent for the benefit of Banks an additional fee of \$42,000 to be distributed to Banks pro rata in accordance with their Commitments (after giving effect to the increase and adjustment in the Commitments provided herein).

#### 11. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Loan Documents and all other documents delivered to Agent and Banks in connection therewith shall remain unaltered and in full force and effect except as modified or amended hereby. To the extent that any term or provision of this Agreement is or may be deemed expressly inconsistent with any term or provision in any Loan Document or any other document executed in connection therewith, the terms and

provisions hereof shall control.

(b) The execution, delivery and effectiveness of this Agreement shall neither operate as a waiver of any right, power or remedy of Agent or Banks under any of the Loan Documents nor constitute a waiver of any Default or Event of Default or default thereunder.

(c) In consideration of Agent's and Banks' agreement to amend the existing credit facility, Borrower hereby waives and releases Agent and Banks and their respective officers, attorneys, agents and employees from any liability, suit, damage, claim, loss or expense of any kind or failure whatsoever and howsoever arising that it ever had up until, or has as of, the date of this Agreement.

(d) This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous understandings and agreements.

(e) In the event any provisions of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

(f) This Agreement shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

(g) This Agreement shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and assigns and may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(h) The headings used in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

IN WITNESS WHEREOF, Borrower, Agent and Banks have caused this Agreement to be executed by their duly authorized officers as of the date first above written.

PHILADELPHIA SUBURBAN  
WATER COMPANY

By: /s/ Kathy L. Pape

-----  
Title: Vice President and Treasurer

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

By: /s/ Frank Pugliese

-----  
Title: Vice President

FIRST UNION NATIONAL BANK

By: /s/ Jeffrey Stottler

-----  
Title:

CITIZENS BANK OF PENNSYLVANIA  
(successor by assignment from Mellon Bank, N.A.)

By: /s/ Mark Tori

-----  
Title:



FLEET NATIONAL BANK

By: /s/ Tracy L. Hawkins

-----  
Title: Senior Vice President

-----

THIRTY-FOURTH SUPPLEMENTAL  
INDENTURE  
DATED AS OF OCTOBER 15, 2001  
TO  
INDENTURE OF MORTGAGE  
DATED AS OF JANUARY 1, 1941

-----

PHILADELPHIA SUBURBAN WATER COMPANY

TO

CHASE MANHATTAN TRUST COMPANY, NATIONAL ASSOCIATION

-----

\$30,000,000 FIRST MORTGAGE BONDS, 5.35% Series due 2031

THIRTY-FOURTH SUPPLEMENTAL INDENTURE

THIRTY-FOURTH SUPPLEMENTAL INDENTURE dated as of the 15TH day of October 2001, 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, 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, a Thirty-First Supplemental Indenture dated as of July 1, 1997, a Thirty-Second Supplemental Indenture dated as of October 1, 1999, and a Thirty-Third Supplemental Indenture dated as of November 15, 1999, so as 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-nine 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

Designation -----	Indenture -----	Amount -----
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
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	
6.00% Series due 2029	Thirty-Second Supplemental	25,000,000
1999 Medium Term Note Series	Thirty-Third Supplemental	
7.40% Subseries A due 2005	15,000,000	
7.40% Subseries B due 2005	11,000,000	
6.21% Subseries C due 2011	15,000,000	

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]

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
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

COUNTY

Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
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
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	8548	1067

and

WHEREAS, the Original Indenture was recorded in Berks County on August 16, 1999, the Thirty-Second Supplemental Indenture was recorded in Berks County on October 6, 1999 and the Thirty-Third Supplemental Indenture was recorded in Berks County on November 30, 1999 in Books 3113, 3132 and 3149 and at Pages 707, 1510 and 1260, respectively; 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-Fourth Supplemental Indenture, a new series of bonds to be designated "First Mortgage Bonds, 5.35% Series due 2031" (herein referred to as the "Bonds") to be limited in aggregate principal amount to \$30,000,000, to be issued only as registered bonds without coupons, to be dated as of November 1, 2001, to bear interest at the rate of 5.35% per annum, and to mature on October 1, 2031; 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 15, 2001 (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 2001 in the aggregate principal amount of \$30,000,000 (the "Authority Bonds"); and

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2001 (the "Authority Indenture"), between the Authority and First Union National Bank, 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

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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

WHEREAS, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the Original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, in addition to the property described in the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second and Thirty-Third 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-Fourth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Thirty-Fourth Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Thirty-Fourth 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:

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No. R-1

\$30,000,000

PHILADELPHIA SUBURBAN WATER  
COMPANY

(Incorporated under the Laws of the Commonwealth  
of Pennsylvania)

First Mortgage Bond, 5.35% Series Due 2031

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 October 2031, at the designated office of Chase Manhattan Trust Company, National Association in Dallas, Texas, the sum of Thirty 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 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 April 1, 2002, from the date hereof) until the principal hereof shall become due and payable, at the rate of five and thirty-five hundredths percent (5.35%) per annum, payable semiannually in like coin or currency on the first day of April and the first day of October in each year, commencing April 1, 2002 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 5.35% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Thirty-Fourth 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 whether or not such day is a 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.

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.

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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 November 1, 2001.

Attest:

PHILADELPHIA SUBURBAN WATER COMPANY

By:

-----  
(Assistant) Secretary

-----  
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 as trustee 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-Fourth Supplemental Indenture" dated as of October 15, 2001, and designated therein as "First Mortgage Bonds, 5.35% Series due 2031" (the "Bonds").

To the extent permitted by and as provided in the Indenture, modifications or alterations of the Indenture, or of any indenture supplemental thereto, and of the rights and obligations of the Company and of the holders and registered owners of bonds issued and to be issued thereunder may be made with the consent of the Company by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds then outstanding under the Indenture and entitled to vote, at a meeting of the bondholders called and held as provided in the Indenture, and, in case one or more but less than all of the series of bonds then outstanding under the Indenture are so affected, by an affirmative vote of the holders and registered owners of not less than 75% in principal amount of bonds of any series then outstanding under the Indenture and entitled to vote on and affected by such modification or alteration, or by the written consent of the holders and registered owners of such percentages of 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 15, 2001, 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 in the Commonwealth of Pennsylvania 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 2001, in the aggregate principal amount of \$30,000,000 due October 1, 2031 (the "Authority Bonds") and bearing interest at 5.35% per annum.

The Authority Bonds are to be issued under a Trust Indenture, dated as of October 15, 2001 (the "Authority Indenture"), between the Authority and First Union National Bank 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.

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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 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 October 1, 2012 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01 of the Authority Indenture, and then 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 price (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 Period -----	Redemption Price -----
October 1, 2012 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 make payments with respect to the Authority Bonds pursuant to the provisions of Section 7.02 (a) of the Financing Agreement or Sections 7.01(b) or (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.

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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 Dallas, Texas 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-Fourth Supplemental Indenture.

CHASE MANHATTAN TRUST COMPANY,  
NATIONAL ASSOCIATION

By: \_\_\_\_\_  
Authorized Signer

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

WHEREAS, the Company and the Trustee, pursuant to Article XVIII of the Original Indenture, wish, by means of this Thirty-Fourth Supplemental Indenture, to amend the Thirty-Third Supplemental Indenture dated as of November 15, 1999 (the "Thirty-Third Supplemental Indenture"):

NOW, THEREFORE, THIS THIRTY-FOURTH 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-Fourth 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:

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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-Third Supplemental Indenture.

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

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.

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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

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may run across or encroach upon said lands, to liens, if any, incidental to construction, and to Permitted Liens, as defined in the Original Indenture; and, with respect to any property which the Company may hereafter acquire, to all terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in such deeds and other instruments, respectively, under and by virtue of which the Company shall hereafter acquire the same and to any and all liens existing thereon at the time of such acquisition.

TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every entity 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 fortieth series of bonds, limited in aggregate principal amount to \$30,000,000 designated as "Philadelphia Suburban Water Company, First Mortgage Bonds, 5.35% Series due 2031".

Interest on the Bonds shall be payable semiannually on April 1 and October 1 of each year (each an "interest payment date"), commencing April 1, 2002. 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

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shall bear interest from November 1, 2001; 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 November 1, 2001. 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 October 1, 2031 and shall bear interest at the rate of 5.35%.

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 Dallas, Texas, and shall be payable, along with interest on the Bonds, 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; each installment of interest shall 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

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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 October 1, 2012 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01 of the Authority Indenture, and then 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 price (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 Period -----	Redemption Price -----
October 1, 2012 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 make payments with respect to the Authority Bonds pursuant to the provisions of Section 7.02(a) of the Financing Agreement, or Sections 7.01(b) or (c) of the Authority Indenture, 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.

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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-Fourth Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee's policies and procedures, 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 \$30,000,000 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

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2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6.50% Series due 2010 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 5.95% Series due 2002 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7.15% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025, the 6.82% Subseries B due 2005, the 6.89% Subseries C due 2015, the 6.99% Subseries D due 2006, the 7.47% Subseries E due 2003, the 6.83% Subseries F due 2003, and the 7.06% Subseries G due 2004) shall cease to be outstanding, or on or before the March 1 next occurring after bonds of the 6.35% Series due 2025 shall cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1997 Medium Term Note Series issued under the Thirty-First Supplemental Indenture (consisting of the 6.75% Subseries A due 2007, the 6.30% Subseries B due 2002, the 6.14% Subseries C due 2008, the 5.80% Subseries D due 2003, the 5.85% Subseries E due 2004 and the 6.00% Subseries F due 2004) cease to be outstanding, or on or before March 1 next occurring after the bonds of 6.00% Series due 2029 cease to be outstanding, or on or before March 1 next occurring after the Bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 7.40% Subseries A due 2005, the 7.40% Subseries B due 2005 and the 6.21% Subseries C due 2011) cease to be outstanding, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, whichever is latest, 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:

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(A) An Officers' Certificate, which shall state:

(i) The amount of the Gross Operating Revenues for the preceding calendar year;

(ii) 9% of such Gross Operating Revenues;

(iii) The amount actually expended by the Company for maintenance during such calendar year;

(iv) The amount set forth in subparagraph (xii) of each Officers' Certificate delivered to the Trustee pursuant to the provisions of this Section during the preceding five calendar years (specifying each such Officers' Certificate), after deducting from each such amount the aggregate of (a) the Cost or Fair Value, whichever is less, of all Permanent Additions represented by such amount which have ceased to be Available Permanent Additions; and (b) any part of such amount for which the Company has previously taken credit against any Maintenance or Improvement Deposit (specifying the Officers' Certificate in which such credit was taken); and (c) any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

(v) An amount which shall be the aggregate of all amounts set forth pursuant to the provisions of clause (c) of the foregoing subparagraph (iv);

(vi) The Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

(vii) That part of the amount set forth in subparagraph (vi) which the Company desires to use as a credit against the Maintenance or Improvement Deposit;

(viii) The amount of cash payable to the Trustee under the provisions of Section 1 of this Article, which shall be the amount by which the amount set forth in subparagraph (ii) hereof exceeds the sum of the amounts set forth in subparagraphs (iii), (v) and (vii) hereof;

(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;

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(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.

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### 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-Fourth 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, 2000, 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.

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"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.

"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-Fourth Supplemental Indenture.

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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 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 any 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.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 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.

Amendment of Thirty-Third Supplemental Indenture

The second paragraph of Section 1 of Article I of the Thirty-Third Supplemental Indenture is deleted and the following paragraph is substituted therefor:

Interest on each subseries of the Bonds shall be payable semiannually on either the 1st, 12th or 15th day of two calendar months six months apart as indicated in the Subseries Authorizing Certificate (each an "Interest Payment Date") in each year commencing on the first Interest Payment Date next succeeding the date of authentication of such Bond (the "Original Issue Date"), unless the Original Issue Date or the date of authentication occurs between a Record Date, as defined below, and the next succeeding Interest Payment Date, in which case commencing on the second Interest Payment Date succeeding the Original Issue Date or the date of authentication, to the registered holders of the Bonds on the Record Date with respect to such Interest Payment Date, and on the maturity date specified on the face of the Bond (the "Maturity Date") or any date fixed for tender or redemption pursuant to the terms of such Bond (the "Tender Date" or "Redemption Date" respectively). Interest on each subseries of Bonds will accrue from the most recent Interest Payment Date to which interest has been paid or duly provided for or, if no interest has been paid, from its Original Issue Date, until the principal has been paid or made duly available for payment. If the Maturity Date (or any Redemption Date or Tender Date) or an Interest Payment Date falls on a day which is not a Business Day, as defined below, principal (and premium, if any) or interest payable with respect to such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date will be paid on the next succeeding Business Day with the same force and effect as if made on such Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date, as the case may be, and no interest shall accrue with respect to such payment for the period from and after such

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Maturity Date (or Redemption Date or Tender Date) or Interest Payment Date. The term "Record Date" as used in this Section 1 with respect to any regular Interest Payment Date shall mean the 1st day of the same calendar month of the Interest Payment Date where the Interest Payment Date is on the 12th or 15th day of such month, or the 15th day of the calendar month preceding the Interest Payment Date where such Interest Payment Date is on the 1st day of such month. As used herein, "Business Day" means any day other than a Saturday or Sunday, on which the Trustee, any paying agent or banks in New York, New York are not required or authorized by law or executive order to close.

ARTICLE VI

Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second and Thirty-Third Supplemental Indentures are hereby confirmed. All references in this Thirty-Fourth 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 and not specifically defined 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-Fourth 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  
Institutional Trust Services  
1650 Market Street, Suite 5210  
Philadelphia, PA 19103  
Attention: Philadelphia Suburban Water Administrator  
Telecopy: (215) 972-1685

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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-Fourth 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-Fourth Supplemental Indenture is dated as of October 15, 2001 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.

SECTION 5. In order to facilitate the recording or filing of this Thirty-Fourth Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

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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 15th day of October, 2001.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER  
COMPANY

Attest: /s/ Roy H. Stahl

-----  
Secretary

By: /s/ Kathy L. Pape

-----  
Vice President and Treasurer

[CORPORATE SEAL]

CHASE MANHATTAN TRUST  
COMPANY, NATIONAL ASSOCIATION,  
as Trustee

Attest: /s/ Judy Wisniewski

-----  
Authorized Officer

By: /s/ Catherine Lenhardt

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Authorized Officer

## Exhibit A

## Bonds Redeemed or Paid at Maturity

Series	Principal Amount Paid or Redeemed (If less than all Bonds of Series)	Date Paid	Maturity
-----	-----	---	-----
3.25% Series Due 1971		12/31/1970	Redemption
9.63% Series Due 1975		06/15/1975	Maturity
9.15% Series Due 1977		01/01/1977	Maturity
3.00% Series Due 1978		07/01/1978	Maturity
3.38% Series Due 1982		07/01/1982	Maturity
3.90% Series Due 1983		07/01/1983	Maturity
3.50% Series Due 1986		01/01/1986	Maturity
4.50% Series Due 1987		01/01/1987	Maturity
4.13% Series Due 1988		05/01/1988	Maturity
5.00% Series Due 1989		09/01/1989	Maturity
4.63% Series Due 1991		05/01/1991	Maturity
4.70% Series Due 1992		04/01/1992	Maturity
6.88% Series Due 1993		01/01/1993	Maturity
4.55% Series Due 1994		03/01/1994	Maturity
10.13% Series Due 1995	\$6,300,000	--	Sinking Fund
10.13% Series Due 1995	\$3,700,000	05/17/1993	Redemption
9.20% Series Due 2001	\$3,850,000	--	Sinking Fund
9.20% Series Due 2001	\$3,150,000	05/01/1993	Redemption
8.40% Series Due 2002	\$5,850,000	--	Sinking Fund
8.40% Series Due 2002	\$4,150,000	01/02/1996	Redemption
5.95% Series Due 2002	\$3,200,000	--	Sinking Fund
12.45% Series Due 2003	\$1,000,000	08/01/1993	Sinking Fund
12.45% Series Due 2003	\$9,000,000	08/02/1993	Redemption
8.88% Series Due 2010	\$ 800,000	--	Sinking Fund
8.88% Series Due 2010	\$7,200,000	06/30/1992	Redemption
13.00% Series Due 2005		08/02/1995	Redemption
7.88% Series Due 1997		01/02/1996	Redemption
10.65% Series Due 2006		04/02/1996	Redemption
5.50% Series Due 1996		11/01/1996	Maturity
8.44% Series Due 1997		04/01/1997	Maturity
7.15% Series Due 2008	\$8,000,000	--	Sinking Fund

## EXHIBIT B

## Properties acquired from 8/31/99 to 9/30/01

Name	Grantor	County	Index No.	Deed Date	Book	Page
----	-----	-----	-----	-----	---	---
Bubbling Springs	Simpson Paper	Montgomery	VI-E-74	09/24/99	5293	1660
Reeser Parcel	Martin M. & Faye A. Reecer	Chester	VIII-Q-1	09/20/99	4641	1163
East Marlborough	Township of East Marlborough	Chester	VI-E-75	12/07/99	4684	2168
Fenimore Parcel (Glenside)	Richard D. Fenimore	Chester	VI-B-64	03/07/00	4724	1814
Chatwood	Chatwood Water Company	Chester	R-1	10/18/00	4850	35
Chatwood	Chatwood Water Company	Chester	R-2	10/18/00	4850	35
Todd Cooke Parcel	Todd Cooke	Delaware	I-A-28	05/01/00	2009	1451
Nase Booster	Ruth V. Nase	Berks	VI-C-12	08/08/01	3382	47
Embreeville Tank	Com. Of PA.	Chester	VI-B-60	05/15/01	4980	1763

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

Chase Manhattan Trust Company, National Association  
Institutional Trust Services  
1650 Market Street, Suite 5210  
Philadelphia, PA 19103  
Attention: Philadelphia Suburban Water Administrator  
Telecopy: (215) 972-1685

CHASE MANHATTAN TRUST COMPANY,  
NATIONAL ASSOCIATION

By: /s/ Catherine Lenhardt  
-----  
Authorized Officer

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 26th day of October, 2001, 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-Fourth 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/ Catherine Iezzi  
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Notary

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 25th day of October, 2001 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Catherine Lenhardt, who acknowledged herself to be a Vice President of Chase Manhattan Trust Company, National Association, Trustee, a national banking association, and that she as such Vice President, being authorized to do so, executed the foregoing Thirty-Fourth 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/ Sandra M. Abrahams  
-----  
Notary

This Thirty-Fourth Supplemental Indenture was recorded on \_\_\_\_\_, 2001 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-three supplemental indentures, see pages 4 and 5 of this Thirty-Fourth Supplemental Indenture.

THIRTY-FIFTH SUPPLEMENTAL

INDENTURE

DATED AS OF JANUARY 1, 2002

TO

INDENTURE OF MORTGAGE

DATED AS OF JANUARY 1, 1941

-----

PENNSYLVANIA SUBURBAN WATER COMPANY, as successor by merger to  
Philadelphia Suburban Water Company  
Consumers Pennsylvania Water Company - Shenango Valley Division  
Consumers Pennsylvania Water Company - Roaring Creek Division  
Consumers Pennsylvania Water Company - Susquehanna Division  
Waymart Water Company  
Fawn Lake Forest Water Company  
Northeastern Utilities, Inc.  
and  
Western Utilities, Inc.

TO

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

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THIRTY-FIFTH SUPPLEMENTAL INDENTURE

THIRTY-FIFTH SUPPLEMENTAL INDENTURE dated as of the 1st day of January, 2002, by and between PENNSYLVANIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company") as successor by merger to the Philadelphia Suburban Water Company (the "Original Company"), party of the first part, and J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, a national banking association (the "Trustee"), party of the second part.

WHEREAS, the Original 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 Original 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; on November 24, 1997, Chase Manhattan Trust Company, National Association, succeeded Mellon Bank, N.A. as trustee; on December 1, 2001, J.P. Morgan Trust Company, National Association, became successor by merger to Chase Manhattan Trust Company, National Association; 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 Original 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, (the "Fifth Supplemental Indenture") a Sixth Supplemental Indenture dated as of May 1, 1958, a Seventh Supplemental Indenture dated as of September 1, 1959, an Eighth Supplemental Indenture dated as of May 1, 1961, a Ninth Supplemental Indenture dated as of April 1, 1962, a Tenth Supplemental Indenture dated as of March 1, 1964, an Eleventh Supplemental Indenture dated as of November 1, 1966, a Twelfth Supplemental Indenture dated as of January 1, 1968, a Thirteenth Supplemental Indenture dated as of June 15, 1970, a Fourteenth Supplemental Indenture dated as of November 1, 1970, a Fifteenth Supplemental Indenture dated as of

December 1, 1972, a Sixteenth Supplemental Indenture dated as of May 15, 1975, a Seventeenth Supplemental Indenture dated as of December 15, 1976, an Eighteenth Supplemental Indenture dated as of May 1, 1977, a Nineteenth Supplemental Indenture dated as of June 1, 1980, a Twentieth Supplemental Indenture dated as of August 1, 1983, a Twenty-First Supplemental Indenture dated as of August 1, 1985, a Twenty-Second 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, a Thirty-First Supplemental Indenture dated as of July 1, 1997, a Thirty-Second Supplemental Indenture dated as of October 1, 1999, a Thirty-Third Supplemental Indenture dated as of November 15, 1999, and a Thirty-Fourth Supplemental Indenture dated as of October 15, 2001, so as 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 terms of the Original Indenture were amended by the Fifth Supplemental Indenture; and

WHEREAS, the Original Company has issued under the Original Indenture, as supplemented at the respective dates of issue, forty 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

Designation	Indenture	Amount
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000
9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
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
6.00% Series due 2029	Thirty-Second Supplemental	25,000,000
1999 Medium Term Note Series	Thirty-Third Supplemental	
7.40% Subseries A due 2005		15,000,000
7.40% Subseries B due 2005		11,000,000
6.21% Subseries C due 2011		15,000,000
5.35% Series Due 2031	Thirty-Fourth Supplemental	30,000,000

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:

Indenture	Date of Recording	COUNTY							
		Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Original	2/20/41	496	1	H-13.Vol.307	20	1034	1	1625	1
First Supplemental	8/26/48	632	1	F-16.Vol.380	200	1668	169	2031	257
Second Supplemental	7/1/52	768	438	18.Vol.425	186	1962	376	2360	517
Third Supplemental	11/25/53	895	1	18.Vol.442	325	2052	1	2493	1
Fourth Supplemental	1/9/56	1089	155	Z-20.Vol.499	1	2199	1	2722	425
Fifth Supplemental	3/20/57	1181	316	B-22.Vol.536	601	2294	50	2850	335
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952	289
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090	249
Eighth Supplemental	5/9/61	-	-	Z-26	17	2526	312	-	-

Eighth Supplemental	5/10/61	1409	225	-	-	-	-	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291

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COUNTY									
=====									
Bucks									
Chester									
Delaware									
Montgomery									
=====									
Indenture	Date of Recording	Book	Page	Book	Page	Book	Page	Book	Page
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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
Thirty-Second Supplemental	10/6/99	1939	421	4646	642	1936	1207	8548	1067
Thirty-Third Supplemental	11/30/99	1970	1573	4675	1272	1936	1207	8548	1067
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761
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; and

WHEREAS, the Original Indenture was recorded in Berks County on August 16, 1999, the Thirty-Second Supplemental Indenture was recorded in Berks County on October 6, 1999, the Thirty-Third Supplemental Indenture was recorded in Berks County on November 30, 1999 and the Thirty-Fourth Supplemental Indenture was recorded in Berks County on October 31, 2001 in Books 3113, 3132, 3149 and 3421 and at Pages 707, 1510, 1260 and 896, respectively; 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, Article XVIII of the Original Indenture provides that the Original 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 evidencing the succession of another corporation to the Original Company (and the assumption by such successor corporation of the covenants and obligations of the Company under this Indenture), 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 Original Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Original Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Original Company, and of making such provisions in regard to matters or questions arising under the Indenture as may be necessary or desirable and not inconsistent therewith; and

WHEREAS, pursuant to an Agreement and Plan of Merger and Reorganization dated December 20, 2001, and effective on January 1, 2002, the Original Company agreed to merge, in conjunction with its affiliated corporations, Consumers Pennsylvania Water Company - Shenango Valley Division, Consumers Pennsylvania Water Company - Roaring Creek Division, Consumers Pennsylvania Water Company - Susquehanna Division, Waymart Water Company, Fawn Lake Forrest Water Company, Western Utilities, Inc., and Northeastern Utilities, Inc. (such affiliates referred to hereinafter as the "Merging Entities") with and into the Company; and

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WHEREAS, the Company agrees to assume the obligations of the Original Company under the Original Indenture and all supplements thereto; and

WHEREAS, in addition to the property described in the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second, Thirty-Third and Thirty-Fourth Supplemental Indentures, the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon; and

WHEREAS, in order to secure the Lien of the Original Indenture on the properties of the Merging Entities, this Thirty-Fifth Supplemental Indenture, with a true and correct copy of the Original Indenture (redacted to delete property descriptions for counties in which such Original Indenture has already been recorded), attached hereto as Exhibit B, is to be recorded in the counties of Berks, Bradford, Bucks, Chester, Columbia, Delaware, Lawrence, Mercer, Montgomery, Northumberland, Pike, Schuylkill and Wayne; and

WHEREAS, the Company and the Trustee, pursuant to Article XVIII of the Original Indenture, wish, by means of this Thirty-Fifth Supplemental Indenture, to amend the Thirty-Third Supplemental Indenture dated as of November 15, 1999 (the "Thirty-Third Supplemental Indenture"):

NOW, THEREFORE, THIS THIRTY-FIFTH 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-Fifth 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 J.P. Morgan 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:

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I.

REAL ESTATE AND WATER RIGHTS.

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

II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

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.

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IV.

AFTER ACQUIRED PROPERTY.

All real and fixed property and all other property of the character hereinabove described which the Company may hereafter acquire.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law as well as in

equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

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.

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SUBJECT, HOWEVER, to the exceptions, reservations and matters hereinabove and in the Original Indenture recited, to releases executed since the date of the Original Indenture in accordance with the provisions thereof, to existing leases, to easements and rights of way for pole lines and electric transmission lines and other similar encumbrances and restrictions which the Company hereby certifies, in its judgment, do not impair the use of said property by the Company in its business, to liens existing on or claims against, and rights in and relating to, real estate acquired for right-of-way purposes, to taxes and assessments not delinquent, to alleys, streets and highways that may run across or encroach upon said lands, to liens, if any, incidental to construction, and to Permitted Liens, as defined in the Original Indenture; and, with respect to any property which the Company may hereafter acquire, to all terms, conditions, agreements, covenants, exceptions and reservations expressed or provided in such deeds and other instruments, respectively, under and by virtue of which the Company shall hereafter acquire the same and to any and all liens existing thereon at the time of such acquisition.

TO HAVE AND TO HOLD, all and singular the property, rights, privileges and franchises hereby conveyed, transferred or pledged or intended so to be unto the Trustee and its successors in the trust heretofore and hereby created, and its and their assigns forever.

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every entity 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:

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ARTICLE I.

Succession

SECTION 1. The Company expressly assumes the due and punctual payment of the principal and interest of all bonds issued under the Original Indenture and all supplements thereto according to their tenor, and the due and punctual performance and observance of all covenants and conditions of the Original Indenture and of all supplements thereto to be performed and observed by the Company.

SECTION 2. The Company further covenants that all additional plants and properties and permanent improvements, extensions, betterments, or additions (including equipment and appliances), which shall be acquired or constructed by it to the extent to which the same or any undivided portion thereof shall from time to time constitute in whole or in part appurtenances to the mortgaged property or additions or accessions thereto reasonably necessary to the maintenance or operation thereof, shall forthwith become subject to the lien of the Original Indenture and all supplements thereto and subject to no mortgage liens prior hereto except the lien of any mortgage subject to which the Company shall acquire or construct such property.

ARTICLE II.

Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the 9.89% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.12% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.17% Series due 2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6.50% Series due 2010 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 5.95% Series due 2002 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7.15% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of any of the Subseries of the 1995 Medium Term Note Series issued under the Twenty-Ninth Supplemental Indenture (consisting of the 7.72% Subseries A due 2025, the 6.82% Subseries B due 2005, the 6.89% Subseries C due 2015, the 6.99% Subseries D due 2006, the 7.47% Subseries E due 2003, the 6.83% Subseries F due 2003, and the 7.06% Subseries G due 2004) shall cease to be outstanding, or on or before the March 1 next occurring after bonds of the 6.35% Series due 2025 shall cease to be outstanding, or 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

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Thirty-First Supplemental Indenture (consisting of the 6.75% Subseries A due 2007, the 6.30% Subseries B due 2002, the 6.14% Subseries C due 2008, the 5.80% Subseries D due 2003, the 5.85% Subseries E due 2004 and the 6.00% Subseries F

due 2004) cease to be outstanding, or on or before March 1 next occurring after the bonds of 6.00% Series due 2029 cease to be outstanding, or on or before March 1 next occurring after the Bonds of any of the Subseries of the 1999 Medium Term Note Series issued under the Thirty-Third Supplemental Indenture (consisting of the 7.40% Subseries A due 2005, the 7.40% Subseries B due 2005 and the 6.21% Subseries C due 2011) cease to be outstanding, or on or before March 1 next occurring after the bonds of the 5.35% Series due 2031 cease to be outstanding, whichever is latest, 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;

(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;

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(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

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(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-Fifth 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, 2000, 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.

"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.

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"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-Fifth 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 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.

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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 any 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.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 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.

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#### ARTICLE V.

##### Amendment of Thirty-Third Supplemental Indenture

The Thirty-Third Supplemental Indenture is amended as follows, by inserting the following paragraph after the first paragraph of Section 3 of Article I:

When any subseries of the Bonds is issued in order to secure the Company's obligation under a Loan or Construction or Financing Agreement with any municipal authority (a "Loan Agreement") securing tax-exempt bonds of such authority, such obligation assumed by operation of any merger, consolidation or acquisition, such subseries of Bonds may contain such mandatory optional and extraordinary optional redemption provisions as are required by any such Loan Agreement. Furthermore, when any subseries of Bonds is issued as Certificated Bonds as a substitute for mortgage bonds assumed by the Company pursuant to any merger, succession or acquisition and such mortgage bonds are secured by a lien on the real property acquired by the Company pursuant to such merger, succession or acquisition, then such subseries of Bonds may contain such redemption provisions as such mortgage bonds contain therein, not inconsistent with the Original Indenture or the supplements thereto and such bonds may be issued in whatever whole dollar amount is remaining on such bonds, notwithstanding the provisions of Section 1 of Article 1.

#### ARTICLE VI

##### Miscellaneous.

SECTION 1. This instrument is executed and shall be construed as an indenture supplemental to the Original Indenture, and shall form a part thereof, and except as hereby supplemented, the Original Indenture and the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Ninth, Tenth, Eleventh, Twelfth, Thirteenth, Fourteenth, Fifteenth, Sixteenth, Seventeenth, Eighteenth, Nineteenth, Twentieth, Twenty-First, Twenty-Second, Twenty-Third, Twenty-Fourth, Twenty-Fifth, Twenty-Sixth, Twenty-Seventh, Twenty-Eighth, Twenty-Ninth, Thirtieth, Thirty-First, Thirty-Second, Thirty-Third and Thirty-Fourth Supplemental Indentures are hereby confirmed. All references in this Thirty-Fifth 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 and not specifically defined 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-Fifth 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:

J.P. Morgan Trust Company, National Association  
Institutional Trust Services  
1650 Market Street, Suite 5210  
Philadelphia, PA 19103  
Attention: Pennsylvania Suburban Water Administrator  
Telecopy: (215) 972-1685

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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-Fifth 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-Fifth Supplemental Indenture is dated as of January 1, 2002 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.

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

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 January, 2002.

[CORPORATE SEAL]

PENNSYLVANIA SUBURBAN WATER COMPANY, as successor by merger to Philadelphia Suburban Water Company, Consumers Pennsylvania Water Company - Shenango Valley Division, Consumers Pennsylvania Water Company - Roaring Creek Division, Consumers Pennsylvania Water Company - Susquehanna Division, Waymart Water Company, Fawn Lake Forest Water Company, Northeastern Utilities, Inc., and Western Utilities, Inc.

Attest: /s/ Roy H. Stahl  
-----  
Secretary

By: /s/ Kathy L. Pape  
-----  
Vice President and Treasurer

[CORPORATE SEAL]

J.P. MORGAN TRUST COMPANY,  
NATIONAL ASSOCIATION,  
as Trustee

Attest: /s/ Judy Wisniewski  
-----  
Authorized Officer

By: /s/ Catherine Lenhardt  
-----  
Authorized Officer

Exhibit A

Bonds Redeemed or Paid at Maturity

Series	Principal Amount Paid or Redeemed (If less than all Bonds of Series)	Date Paid	Maturity
-----	-----	----	-----

3.25% Series Due 1971		12/31/1970	Redemption
9.63% Series Due 1975		06/15/1975	Maturity
9.15% Series Due 1977		01/01/1977	Maturity
3.00% Series Due 1978		07/01/1978	Maturity
3.38% Series Due 1982		07/01/1982	Maturity
3.90% Series Due 1983		07/01/1983	Maturity
3.50% Series Due 1986		01/01/1986	Maturity
4.50% Series Due 1987		01/01/1987	Maturity
4.13% Series Due 1988		05/01/1988	Maturity
5.00% Series Due 1989		09/01/1989	Maturity
4.63% Series Due 1991		05/01/1991	Maturity
4.70% Series Due 1992		04/01/1992	Maturity
6.88% Series Due 1993		01/01/1993	Maturity
4.55% Series Due 1994		03/01/1994	Maturity
10.13% Series Due 1995	\$6,300,000	--	Sinking Fund
10.13% Series Due 1995	\$3,700,000	05/17/1993	Redemption
9.20% Series Due 2001	\$3,850,000	--	Sinking Fund
9.20% Series Due 2001	\$3,150,000	05/01/1993	Redemption
8.40% Series Due 2002	\$5,850,000	--	Sinking Fund
8.40% Series Due 2002	\$4,150,000	01/02/1996	Redemption
5.95% Series Due 2002	\$3,200,000	--	Sinking Fund
12.45% Series Due 2003	\$1,000,000	08/01/1993	Sinking Fund
12.45% Series Due 2003	\$9,000,000	08/02/1993	Redemption
8.88% Series Due 2010	\$ 800,000	--	Sinking Fund
8.88% Series Due 2010	\$7,200,000	06/30/1992	Redemption
13.00% Series Due 2005		08/02/1995	Redemption
7.88% Series Due 1997		01/02/1996	Redemption
10.65% Series Due 2006		04/02/1996	Redemption
5.50% Series Due 1996		11/01/1996	Maturity
8.44% Series Due 1997		04/01/1997	Maturity
7.15% Series Due 2008	\$8,000,000	--	Sinking Fund

#### EXHIBIT B

The Original Indenture (redacted to delete property descriptions contained therein for property contained in Bucks, Chester, Delaware and Montgomery Counties)

For purposes of filing this Annual Report on Form 10-K, the Indenture of Mortgage dated as of January 1, 1941 was previously filed as Exhibit 4.1 to Annual Report on Form 10-K for the year ended December 31, 1983.

#### Exhibit C

##### New Property

Additional Property Secured by the Lien of the Indenture Subsequent to the Date of the 34th Supplemental Indenture

There is no new property in Berks County since the recording of the Thirty-fourth Supplemental Indenture on October 31, 2001.

There is no new property in Chester County since the recording of the Thirty-fourth Supplemental Indenture on October 31, 2001.

There is no new property in Delaware County since the recording of the Thirty-fourth Supplemental Indenture on October 31, 2001.



Properties acquired from 8/31/99 to 9/30/01

Name	Grantor	County	Index No.	Deed Date	Book	Page
Bubbling Springs	Simpson Paper	Montgomery	VI-E-74	09/24/99	5293	1660
Reeser Parcel	Martin M. & Faye A. Reecer	Chester	VIII-Q-1	09/20/99	4641	1163
East Marlborough	Township of East Marlborough	Chester	VI-E-75	12/07/99	4684	2168
Fenimore Parcel (Glenside)	Richard D. Fenimore	Chester	VI-B-64	03/07/00	4724	1814
Chatwood	Chatwood Water Company	Chester	R-1	10/18/00	4850	35
Chatwood	Chatwood Water Company	Chester	R-2	10/18/00	4850	35
Todd Cooke Parcel	Todd Cooke	Delaware	I-A-28	05/01/00	2009	1451
Nase Booster	Ruth V. Nase	Berks	VI-C-12	08/08/01	3382	47
Embreeville Tank	Com. Of PA.	Chester	VI-B-60	05/15/01	4980	1763

There is no new property in Montgomery County since the recording of the Thirty-fourth Supplemental Indenture on October 31, 2001.

EXHIBIT "C"

Schedule of Real Estate Owned  
By the Consumers Pennsylvania Water Company  
Susquehanna Division in Bradford County Pennsylvania

Borough or Township	Lot No. or Location	Date of Deed	Bradford County Deed Book and Page or Instrument No.
1. Athens Township	Lehigh Reservoir Mills Street	03/30/1955	506/240
2. Athens Township	Reservoir No. 1	11/11/1889 02/16/1885	181/331 160/117
3. Athens Borough	Soper Well Property	04/05/1968	588/360
4. Athens Borough	Stover Well Property	03/26/1973 03/26/1973	619/206 619/208
5. Athens Township	State Highway No. 08077	07/18/1974	641/192
6. Athens Borough	Maple Street	06/06/1973	640/362

Properties Acquired from October 1, 2001 through November 30, 2001

Name	Grantor	County	Deed Date	Book	Page
Well # 8	Borough of Chalfont	Bucks	11/01/01	2477	1677
Well # 11	Borough of Chalfont	Bucks	11/01/01	2477	1682
Well # 12	Borough of Chalfont	Bucks	11/01/01	2477	1688
Tank # 2	Borough of Chalfont	Bucks	11/01/01	2477	1672

Other Real Estate Acquired

Real Estate Subject to the Lien of the Indenture in Columbia and Northumberland Counties, Pennsylvania, owned on November 1, 1964 by predecessors to Pennsylvania Suburban Water Company.

COMPREHENSIVE LIST OF PROPERTY OWNED BY  
CONSUMERS PA. WATER COMPANY -  
SHENANGO VALLEY DIVISION  
MERCER COUNTY  
2001 BOND FINANCING  
December 17, 2001

Name	Location	Recorded	Place of Recording
Pumping Station and Filter Plant - Sharon	Lots in the McGilvary Addition Lots 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39	1926 through 1969	N-21-458 Y20-58 1969 D.R. 1288 1968 D.R. 3283 1964 D.R. 2626 Z-13-398
Mercer Avenue Standpipe - Farrell	4 Freeble Heights	8/20/1947	Y-18-281 and corrected deed description at I-19-579
Carnegie View Standpipe - Farrell	491, 492, 493, 494, south 10 ft of 459, 460, 461, part of south 10 ft. of 458, together with vacated portions of Rhoda St., all in Carnegie View Plan	1/10/1952	I-20-79
Homewood Drive Standpipe - Hermitage	264 Buena Vista Heights Plan 265 and 266 Buena Vista Heights Plan	7/12/1957 11/3/1955	R-21-34 F-21-340
Boyd Drive Booster Station - Hermitage	Westerman Street Ext.	4/17/1958	U-21-501
Rhoda Street Garage 16" Main - Farrell and Hermitage	Carnegie View Plan, Lot 406  North 50' Lot 459  Carnegie View Lots 454, 455, 456, 457, 458	1/6/1960 12/5/1960  9/8/1959  10/12/1984	1960 D.R. 25 1960 D.R. 2654  1959 D.R. 2144  84 D.R. 3574
West Middlesex	Mitchell Road	8/26/1965	1965 D.R. 2219

Standpipe-Shenango Twp

New Wilmington Standpipe - Wilmington Township	Pa. Route No. 18	9/2/1965	1965 D.R. 2317
East State Street Standpipe-Hermitage	U.S. Route No. 62	10/14/1965	1965 D.R. 2870
North Keel Ridge Booster Station-Hermitage	North Keel Ridge Road	11/12/1965	Part of 1965 D.R. 3197
Gail Drive Standpipe-Hermitage	Gail Drive	10/24/1984	84 D.R. 3574 (Parcel One)
Office Building - 665 South Dock Street	South Dock Street (G.W. Becker)	8/3/1990	90 D.R. 08133
Mercer Standpipe Lot	Lot 1 Mandell Plan (Mandell)	6/14/1990	91 D.R. 7104

Mercer Booster Station	Lot 9 U.S. Route 62 (Holcroft)	7/24/1990	90 D.R. 07715
Mercer County	Lot one Treimer, Plan 97 PL9607-143	7/30/1997	97 D.R. 10426
Meter Vault Property	Parcel 3 Special Warranty Deed	3/26/1999	99-05839
Western Utilities, Inc. Mercer County	Coolspring Township, Lot 917 in Lake Latonka Subdivision	11/30/1990	90 D.R. 13011
	Lot 230 in Lake Latonka Subdivision	11/30/1990	90 D.R. 13011

FAWN LAKE FOREST WATER COMPANY

Name	Grantor	County	Index/Tax No.	Deed Date	Book	Page
Fawn Lake Forest Water Company	Batco - 1989 - III, Inc., Philip Economy, Attorney-in-Fact	Pike County	1995-258	12/12/94	997	78
Fawn Lake Forest Water Company	Tax Claim Bureau of Pike County, Wesley Hains and Eileen Hains	Pike County	1985-14664	12/15/86	1094	265
Fawn Lake Forest Water Company	American Central Corporation	Pike County	1980-5356	11/7/79	721	234
Fawn Lake Forest Water Company	Pike County Tax Claim Bureau, James Weir and Margaret Weir	Pike County	1983-3978	1/25/83	851	266
Fawn Lake Forest Water Company	American Central Corporation	Pike County	1980-5358	11/7/79	721	240
Fawn Lake Forest Water Company	Arthur Jebson, Sheriff, Joseph Hirko and Patricia Hirko	Pike County	1982-3566	1/6/81	814	223
Fawn Lake Forest Water Company	Pike County Tax Claim Bureau, Francis Parrish	Pike County	1983-3977	1/25/83	851	263

Fawn Lake Forest Water Company	Pike County Tax Claim Bureau, Brigitte Willis and Harry Willis	Pike County	1993-12684	11/6/93	798	285
Fawn Lake Forest Water Company	Clifford Holbert and Thelma Holbert	Pike County	1990-9863	12/15/89	296	284
Fawn Lake Forest Water Company	M.M. Fisher and Karen Fisher	Pike County	1992-11228	8/29/92	608	55
Fawn Lake Forest Water Company	Norman Prescott and Betty Prescott	Pike County	1995-10108	8/21/95	1104	306

#### ADDITIONAL PROPERTIES

All real property and interests in real property, wherever situated, of the type and nature contemplated in the Original Indenture, acquired by the Company subsequent to November 1, 1964, including, without limitation, the real property and interests in real property more particularly described in the following deeds:

1. Deed from Helker Construction Company to the Company dated August 12, 1992, and recorded in the Northumberland County Office for Recording of Deeds in Book 869, Page 795;
2. Deed from Northeaster Enterprises, Inc. to the Company dated December 31, 1992, and recorded in the Northumberland County Office for Recording of Deeds in Book 889, Page 131;
3. Deed from Northeaster Enterprises, Inc. to the Company dated August 12, 1992, and recorded in the Schuylkill County Office for Recording of Deeds in Book 1491, Page 906;
4. Deed from Ronald Narke, et al., to the Company dated January 6, 1992, and recorded in the Northumberland County Office for Recording of Deeds in Book 897, Page 791;
5. Deed from Susquehanna Coal Company to the Company dated January 6, 1992, and recorded in the Northumberland County Office for Recording of Deeds in Book 898, Page 876;
6. Deed from Community Banks, N.A. to the Company dated September 26, 1994, and recorded in the Northumberland County Office for Recording of Deeds in Book 977, Page 319;
7. Deed from County of Northumberland to the Company dated August 7, 1996, and recorded in the Northumberland County Office for Recording of Deeds in Book 1066, Page 863; and
8. Deed from Shamokin Area Industrial Corporation to the Company dated March 25, 1998, and recorded in the Northumberland County Office for Recording of Deeds in Book 1150, Page 126.

Excepting, however, all real property and interests in real property, wherever situated, conveyed by the Company subsequent to November 1, 1964, in accordance with the terms and provisions of the Original Indenture including, without limitation, the real property and interests in real property more particularly described in the following deeds:

1. Deed from the Company to Northumberland County Authority dated September 30, 1992, and recorded in the Northumberland County Office for Recording of Deeds in Book 835, Page 428;
2. Deed from the Company to Schuylkill Economic Development Corporation dated January 13, 1996, and recorded in the Schuylkill County Office for Recording of Deeds in Book 1644, Page 97; and
3. Deed from the Company to Charles W. Remaley, Inc. dated July 31, 2000, and recorded in the Schuylkill County Office for Recording of Deeds in Book 1071, Page 151.

Name	Grantor	County	Index/Tax No.	Deed Date	Book	Page
Waymart Water Company	The Dime Bank	Wayne County	28-3-99.3	1/27/92	645	108
Waymart Water Company	Augustus L. Patterson	Wayne County	28-6-11	2/1/21	115	373
Waymart Water Company	Frank R. and Susan Sargent	Wayne County	28-7-65.3	9/23/75	321	132
Waymart Water Company	Vincent P. and Patricia E. Spaulding	Wayne County	28-10-23	9/7/74	311	396
Waymart Water Company	Edward Marsh and Carolyn Marsh	Wayne County	28-10-24	11/15/74	313	794
Waymart Water Company	Claire F. Carlin	Wayne County	28-10-25	12/4/74	314	137
Waymart Water Company	Harold & Mary French	Wayne County	28-251-22.1	11/15/74	313	797
Waymart Water Company	Armena Williams	Wayne County	28-251-23.1	11/15/74	313	800

J.P. Morgan Trust Company National Association, Mortgagee and Trustee named in the foregoing Thirty-Fifth Supplemental Indenture, hereby certifies that its precise name and the post office address of its Institutional Trust Services Group in Philadelphia, Pennsylvania are as follows:

J.P. Morgan Trust Company, National Association  
 Institutional Trust Services  
 1650 Market Street, Suite 5210  
 Philadelphia, PA 19103  
 Attention: Pennsylvania Suburban Water Administrator  
 Telecopy: (215) 972-1685

J.P. MORGAN TRUST COMPANY,  
 NATIONAL ASSOCIATION

By: /s/ Catherine Lenhardt  
 \_\_\_\_\_  
 Authorized Officer

COMMONWEALTH OF PENNSYLVANIA  
 COUNTY OF MONTGOMERY

On the 18th day of December, 2001, 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 Pennsylvania Suburban Water Company, a corporation, and that she as such Vice President and Treasurer, being authorized to do so, executed the foregoing Thirty-Fifth 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/ Catherine A. Iezzi  
 \_\_\_\_\_  
 Notary

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 13th day of December, 2001 before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Catherine Lenhardt, who acknowledged herself to be a Vice President of J.P. Morgan Trust Company, National Association, Trustee, a national banking association, and that she as such Vice President, being authorized to do so, executed the foregoing Thirty-Fifth 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/ Sandra M. Abrahams  
-----  
Notary

This Thirty-Fifth Supplemental Indenture was recorded on December \_\_, 2001 in the Office for the Recording of Deeds for each of the counties tabulated below in the Mortgage Book and at the page indicated:

County	Mortgage Book	Page
-----	----	----
Berks	_____	_____
Bradford	_____	_____
Bucks	_____	_____
Chester	_____	_____
Columbia	_____	_____
Delaware	_____	_____
Lawrence	_____	_____
Mercer	_____	_____
Montgomery	_____	_____
Northumberland	_____	_____
Pike	_____	_____
Schuylkill	_____	_____
Wayne	_____	_____

For the recording information with respect to the Original Indenture and the first thirty-four supplemental indentures, see pages 4-6 of this Thirty-Fifth Supplemental Indenture.

## BOND PURCHASE AGREEMENT

\$30,000,000

DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

Water Facilities Revenue Bonds

(Philadelphia Suburban Water Company Project) Series of 2001

Bond Purchase Agreement dated October 23, 2001, among the DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Authority"), PHILADELPHIA SUBURBAN WATER COMPANY, a Pennsylvania corporation (the "Company"), and THE GMS GROUP, L.L.C., a Delaware limited liability company (the "Underwriter").

## 1. Background.

(a) The Authority proposes to enter into a Construction and Financing Agreement (the "Financing Agreement") dated as of October 15, 2001 with the Company, under which the Authority will agree to loan to the Company funds (1) to finance a portion of the costs of the acquisition, construction, installation and equipping of the Facilities (as defined below), and (2) to pay a portion of the costs of issuance of the Bonds (the "Project"). The Facilities being financed using proceeds of the Bonds (the "Facilities") are located at various sites throughout the Company's existing water supply and distribution system and are described in the Financing Agreement. To finance the loan under the Financing Agreement, the Authority proposes to issue and sell \$30,000,000 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 Authority on September 21, 2001 (the "Authority Resolution") and under a Trust Indenture dated as of October 15, 2001 (the "Trust Indenture"), between the Authority and First Union National Bank, 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, to be issued in the principal amount of \$30,000,000 (the "First Mortgage Bond") concurrently with the Bonds pursuant to the Company's Indenture of Mortgage (the "Indenture of Mortgage") dated as of January 1, 1941, from the Company to Chase Manhattan Trust Company, National Association, as trustee (successor to The Pennsylvania Company for Insurance on Lives and Granting Annuities, The Pennsylvania Company for Banking and Trusts, The First Pennsylvania Banking and Trust Company, First Pennsylvania Bank, N.A., CoreStates Bank, N.A. and Mellon Bank, N.A.) (the "Mortgage Trustee"), as presently amended and supplemented and as to be further supplemented by a Thirty-Fourth Supplemental Indenture of Mortgage (the "Thirty-Fourth Supplemental Mortgage," which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage") to be dated as of October 15, 2001. The First Mortgage Bond will be issued in the same principal amount and will mature on the same date and bear interest at the same rate as the Bonds. All of the Authority'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 Authority's rights to the First Mortgage Bond, except for the Authority's rights to certain fees and reimbursements 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 Trust Indenture;

(c) The Project is intended to construct 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 Trust Indenture under the Trust Indenture Act of 1939, as amended (the "1939 Act"); and

(d) A Preliminary Official Statement dated October 15, 2001, 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, prepared for use in such offerings will be supplied to the parties hereto as soon as it is available, subject to Section 10 hereof (such final Official Statement, as it may be amended or supplemented with the consent of the Authority, 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 Authority, and the Authority will sell to the Underwriter, all (but not less than all) of the Bonds at a purchase price equal to 29,550,000, consisting of the aggregate principal amount of the Bonds (\$30,000,000), less an underwriters' discount of \$450,000. Payment shall be made in immediately available funds to the Trustee for the account of the Authority. Closing (the "Closing") will be at the offices of Reed Smith LLP, bond counsel, at 10:00 a.m., Eastern Daylight Time, on November 1, 2001 or at such other date, time or place or in such other manner as may be agreed on by the parties hereto. The Bonds will be delivered as fully registered Bonds with one Bond for each maturity, each in the aggregate principal amount of Bonds for each such maturity as requested in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), with CUSIP numbers printed thereon, and shall conform in all respects to DTC's Book-Entry-Only System. Delivery of the Bonds will be made at the office of DTC in New York, New York, unless DTC's "FAST" program is employed, in which case the delivery of the Bonds will be made at the offices of Reed Smith LLP, bond counsel (or such other location as is acceptable to the Underwriter). If the Underwriter so requests, the Bonds shall be made available to the Underwriter (prior to their delivery to DTC) in Springfield, Pennsylvania at least three full business day before the Closing for purposes of inspection.

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, that the Underwriter reserves the right (and the Authority 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. Authority's Representations and Warranties. The Authority makes the following representations and warranties, all of which shall survive Closing; that:

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(a) The Authority 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 Bonds, the Trust Indenture, the Financing Agreement, this Bond Purchase Agreement and the Authority's tax certificate and the other various documents and certificates executed by the Authority in connection therewith (collectively, the "Authority Financing Documents"); (iii) issue, sell and deliver the Bonds to the Underwriter as provided herein; and (iv) carry out and consummate the transactions contemplated by the Authority Financing Documents and the Official Statement to be carried out and/or consummated by it;

(b) The sections entitled "INTRODUCTORY STATEMENT," "ABSENCE OF MATERIAL LITIGATION" (insofar as each such section relates to the Authority) and "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 sections entitled "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (insofar as it relates to the Authority) contained in the Official Statement as of its date does not or will 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;

(d) The Authority 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 Authority 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 Authority of the obligations on its part contained in, the Authority Financing Documents;

(f) To the best of the knowledge of the officer of the Authority executing this Bond Purchase Agreement, the Authority 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 Authority Financing Documents, and compliance with the provisions of each thereof, do not and will not conflict with or constitute a breach of or default under any existing law, administrative regulation, judgment, decree, loan agreement, note, resolution, agreement or other instrument to which the Authority is a party or is otherwise subject;

(g) Except as previously disclosed to the Company and the Underwriter, the Authority is not now in default, and has not at any time been in default, as to principal or interest on any obligation issued or guaranteed by the Authority;

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

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(i) The Bonds, when issued, authenticated and delivered in accordance with the Trust Indenture and sold to the Underwriter as provided herein, will be validly issued and will be valid and binding limited obligations of the Authority enforceable against the Authority 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"));

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

(k) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, or public board or body, pending or, to the knowledge of the Authority after due inquiry, threatened against the Authority, affecting the existence of the Authority 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 of the revenues or assets of the Authority 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 Authority 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 Authority with respect to the issuance of the Bonds or the execution, delivery or performance of any of the Authority Financing Documents, or wherein an unfavorable decision, ruling or finding would affect in any way the validity or enforceability of any of the Authority Financing Documents;

(l) The net proceeds received from the Bonds and applied in accordance with the Trust Indenture and Financing Agreement shall be used in accordance with the Act as described in the Official Statement;

(m) The Authority has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the Authority is a bond issuer whose arbitrage certifications may not be relied upon; and

(n) Any certificate signed by any of the authorized officers of the Authority and delivered to the Underwriter shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

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

(a) The Company has not sustained since January 1, 2001 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 outstanding capital stock or the 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;

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(b) The Company was organized, is in good standing 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 Mortgage;

(d) The Original Indenture has been duly authorized, executed and delivered by the Company and the Mortgage Trustee, and the Thirty-Fourth Supplemental Mortgage has been duly authorized. When the Thirty-Fourth Supplemental Mortgage, 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 Mortgage (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 Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, excepting permitted liens under the Mortgage and excepting property and assets that the Mortgage expressly excludes from the lien thereof, and will create a similar lien upon all properties and assets acquired by the Company after the execution and delivery of the Thirty-Fourth Supplemental Mortgage and required to be subjected to the lien of the Mortgage pursuant thereto when so acquired, except for permitted liens under the Mortgage; the Original Indenture has been, and the Thirty-Fourth Supplemental Mortgage 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 Mortgage; and all necessary approvals of regulatory authorities, commissions and other governmental bodies having jurisdiction over the Company required to subject the mortgaged properties and assets or trust estate (as defined in the Mortgage) to the lien of the Mortgage 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, licenses, leaseholds, 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 may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage 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;

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(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 Mortgage 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, to its knowledge after due inquiry, 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 applicable provisions of the First Mortgage Bond and the Mortgage and the execution, delivery and performance by the Company of the Thirty-Fourth Supplemental Mortgage, the Financing Agreement, this Bond Purchase Agreement and the Continuing Disclosure Agreement (hereinafter defined) 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 Mortgage) 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 are 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-Fourth Supplemental Mortgage, 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 Mortgage;

(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;

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(j) There are no legal or governmental proceedings pending to which the Company is a party or to 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 after due, no such proceedings are threatened by governmental authorities or threatened by others;

(k) (i) The Project consists of either land or property of a character subject to the allowance for 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 to the Underwriter 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 (10) 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; and

(m) The information with respect to the Company and the Project and the descriptions of the Financing Agreement, the First Mortgage Bond, the Mortgage and the Continuing Disclosure Agreement contained in the Preliminary Official Statement and the Official Statement (including appendices A, B and C thereto) 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.

5. Authority's Covenants. The Authority will:

(a) furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States of America as the Underwriter may designate and will assist, if necessary therefor, in the continuance of such qualifications in effect so long as required for distribution of the Bonds; provided, however, that the Authority shall in no event be required to file a general consent to suit or service of process or to qualify as a foreign corporation or as a dealer in securities in any such state or other jurisdiction;

(b) not, on its part, amend or supplement the Official Statement without prior notice to and the consent of the Underwriter and the Company and will advise the Underwriter and the Company promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and sale of the Bonds; and

(c) refrain from knowingly taking any action (and permitting any action with regard to which the Authority may exercise control) which 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.

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

(a) refrain from knowingly taking any actions (and from permitting 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 tax purposes of interest on the Bonds referred to under the caption "TAX MATTERS" in the Official Statement;

(b) indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Underwriter, its officers, directors, officials, agents, attorneys, employees, and each person, if any, who controls the Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "1934 Act"), from and against all losses, claims, damages, liabilities and expenses, joint or several, to which the Authority and the Underwriter, or either of them, or any of their respective members, directors, officers, agents, attorneys, and employees and each person, if any, who controls the Underwriter within the meaning of the 1933 Act or 1934 Act as aforescribed may become subject, under federal laws or 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 Project or the Company set forth in the Official Statement, the Preliminary Official Statement or any amendment to either, or (iii) the willful or negligent omission of (or the alleged omission to state) a material fact in the Official Statement in the Preliminary Official Statement, or in any amendment or supplement to either, as such fact is required to be stated therein or necessary to make the statements therein which pertain to the Company or the Project not misleading in the light

of the circumstances under which they were made, or (iv) arising by virtue of the failure to register the Bonds under the 1933 Act or the failure to qualify the Indenture under the 1939 Act;

(c) undertake, pursuant to the Continuing Disclosure Agreement dated October 15, 2001 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 1934 Act, 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 Official Statement;

(d) not amend or supplement the Official Statement without prior notice to, and the consent of, the Underwriter, and will advise the Underwriter and the Authority promptly of the institution of any proceedings by any governmental agency or otherwise affecting the use of the Official Statement in connection with the offer and the sale of the Bonds; and

(e) Concurrently with the Authority's and the Company's acceptance hereof, and as a condition to the obligation of the Underwriter hereunder, (a) the Company will deliver or cause to be delivered to the Underwriter a letter or letters from PricewaterhouseCoopers, LLP, dated a date not more than seven days prior to the date of this Bond Purchase Contract, containing the results of the performance of certain agreed upon procedures and consenting to the use of the Company's audited financial statements prepared by PricewaterhouseCoopers, LLP, in the Preliminary Official Statement and the Official Statement.

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7. Underwriter's Covenant. By acceptance hereof the Underwriter agrees to indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Company, its officers, directors, agents, attorneys, and employees and each person if any, who controls the Company within the meaning of Section 15 of the 1933 Act against all or several claims, losses, damages, liabilities and expenses asserted against them, or any of them, at law or in equity, in connection with (i) the offering and sale of the Bonds on the grounds that the information under the caption "UNDERWRITING" in the Preliminary Statement or the Official Statement (or any supplement or amendment to said information) contains an untrue or allegedly untrue statement of a material fact or omits or allegedly 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 (it being understood that the Underwriters furnished only the information under such "UNDERWRITING" heading), 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 a party, person or entity indemnifiable under this Section 7 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.

8. Notice of Indemnification; Settlement. Promptly after a party, person or entity indemnifiable under Section 6 or 7 of this Bond Purchase Agreement (an "Indemnitee") receives notice of the commencement of any action against such Indemnitee in respect of which indemnity is to be sought by the Indemnitee against the Company or the Underwriter, as the case may be (the "Indemnifying Party"), the Indemnitee 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 the Indemnitee 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 the Indemnitee 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 Indemnitee 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) of this Bond Purchase Agreement 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

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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 reasonable 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 to be prepared) the Preliminary Official Statement, which the Company and the Authority (but, in the case of the Authority, only with respect to the information therein under the headings "THE AUTHORITY" and, insofar as they relate to the Authority, "INTRODUCTORY STATEMENT" and "ABSENCE OF MATERIAL LITIGATION") 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) if any event of which the Company has or gains knowledge would render the Official Statement misleading in any material respect in the period from the date of its delivery to the Underwriter by the Company (as that phrase is defined in Rule 15c2-12) then the Company shall promptly give the Underwriter notice thereof. The Authority 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.

(b) After the Closing, and until the Underwriter has informed the Authority and the Company that the Underwriter has sold all the Bonds, the Authority 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 Authority, the Company or the Bonds shall occur, the result of which shall make it necessary, in the 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 and the Authority shall approve for distribution, a reasonable number of copies of an amendment of or supplement to the Official Statement, in form and substance reasonably 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 Authority shall cooperate with the Company in the issuance and distribution of any such amendment or supplement.

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(c) Upon Closing, the Underwriter shall promptly provide a Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and the Municipal Securities Rulemaking Board ("MSRB") with a copy of the Official Statement for filing in accordance with Rule 15c2-12 and will inform the Authority and the Company 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 and Authority's Obligations. The Underwriter's obligations to purchase and pay for the Bonds and the Authority'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 Authority 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 Authority 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 Reed Smith LLP, Bond Counsel, dated the date of Closing, substantially in the forms attached as Appendix D to the Preliminary Official Statement and Exhibit A hereto, addressed to (or with reliance letters delivered in respect of) the Authority and the Underwriter;

(ii) An opinion of Blank Rome Comisky & McCauley LLP, counsel for the Authority, dated the date of Closing, with respect to the matters set forth in Exhibit B hereto, addressed to the Underwriter and in form and substance reasonably satisfactory to the Underwriter and Bond Counsel;

(iii) Opinions of Dilworth Paxson LLP, counsel to the Company, and the Company's general counsel, dated the date of Closing, with respect to the matters set forth in Exhibit C hereto, addressed to the Underwriter, the Authority and Bond Counsel, in form and substance reasonably satisfactory to the Underwriter and to Bond Counsel;

(iv) An opinion of Klett Rooney Lieber & Schorling, A Professional Corporation, counsel for the Underwriter, in form and substance reasonably satisfactory to the Underwriter;

(v) An opinion of legal counsel to the Ambac Assurance Corporation (the "Bond Insurer") in form and substance satisfactory to the Underwriter, relating to the enforceability of a municipal bond insurance policy from the Bond Insurer (the "Insurance Policy") and the information concerning the Bond Insurer in the Official Statement;

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(vi) An agreed upon procedures letter dated a date not more than seven days prior to the Closing from PricewaterhouseCoopers, LLP, the Company's auditors, with respect to the Official Statement, in form and substance satisfactory to the Underwriter, updating the agreed upon procedures required by Section hereof;

(vii) A certificate dated the date of Closing executed by the an authorized officer of the Authority to the effect that:

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

(B) to the best of the knowledge of such

officer, the Authority has complied in all material respects with all agreements executed by the Authority in connection with issuance of the Bonds and satisfied in all material respects the Authority's covenants contained in Section 5 herein and 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, under the circumstances in which they were made, not misleading in any respect; and

(C) no event affecting the Company has 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 Trust Indenture, the Financing Agreement, the Bond Purchase Agreement, the Thirty-Fourth Supplemental Mortgage and the Continuing Disclosure Agreement;

(x) Two copies of the Articles of Incorporation and Bylaws 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-Fourth Supplemental Mortgage, 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;

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(xi) Two copies of the Authority Resolution, a copy of the Articles of Incorporation of the Authority certified by the Secretary of the Commonwealth, a copy of the Bylaws of the Authority certified by its Secretary, and a subsistence certificate from the Secretary of the Commonwealth, dated as of a date within ten (10) days prior to the Closing Date;

(xii) A letter from PricewaterhouseCoopers, 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 policy shall unconditionally and irrevocably guarantee 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 with respect to the Bonds, 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 by the Authority of a Preliminary Allocation relating to the Bonds from the Pennsylvania Department of Community and Economic Development and of the registration of a Securities Certificate relating to the First Mortgage Bond and the Bonds with the Pennsylvania Public Utility Commission;

(xvi) a subsistence certificate with respect to the Company



from the Secretary of the Commonwealth, dated as of a date within ten (10) days prior to the Closing Date; and

(xvii) 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 Trust Indenture, this Bond Purchase Agreement, the Mortgage, 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 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

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(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 reasonable 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 of the Bonds; 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 of America shall be such as to materially impair the marketability or materially lower the market price of the Bonds; or

(d) Any event or condition occurring or arising 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 Authority, the Company and the Underwriter will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable 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 Project 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) 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 hereof 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 Authority, the Underwriter, or, except for the payment of such costs of issuance described in Section 13 hereof which are due and payable, the Company.

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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 Trust Indenture, the First Mortgage Bond, the Thirty-Fourth Supplemental Mortgage and this Bond Purchase Agreement, the Insurance Policy premium, rating agency fees, the issuance and closing fees of the Authority, the fees and disbursements of counsel to the Authority, 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. The Authority 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, faxed (with confirmation of receipt) or delivered by nationally recognized, next-day delivery service to:

The Underwriter:

The GMS Group, L.L.C.  
1489 Baltimore Pike  
Building 200, Suite 245  
Springfield, Pennsylvania 19064

Attention: George C. Werner, III  
Senior Vice President

Fax #: (610) 690-7150

The Company:

Philadelphia Suburban Company  
762 Lancaster Avenue  
Bryn Mawr, Pennsylvania 19010

Attention: Kathy L. Pape, Esq.,  
Vice President, Treasurer & Rate Counsel

Fax #: (610) 519-0989

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The Authority:

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

Attention: J. Patrick Killian, Commerce Director

Fax #: (610) 566-7337

16. Governing Law. This Bond Purchase Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, excluding those relating to choice of laws or conflict of laws, and may not be assigned by the Authority, 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, 7 and 8 hereof, the Indemnitees, 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.

18. Limitations on Liability. No personal recourse shall be had for any claim based on this Bond Purchase Agreement or the Bonds against any board member, officer, agent, employee, or attorney past, present or future, of the Authority or any successor body as such, either directly or through the Authority 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 Authority 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 Authority from the Financing Agreement and the First Mortgage Bond.

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IN WITNESS WHEREOF, the Authority, 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/ Henry Coleman

-----  
(Vice) Chairman

PHILADELPHIA SUBURBAN WATER  
COMPANY

By: /s/ Kathy L. Pape

-----  
(Vice) President

THE GMS GROUP, L.L.C.

By: /s/ George C. Werner

-----  
George C. Werner, III Senior Vice President

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SCHEDULE I

Terms of Bonds

Principal Amount: \$30,000,000\*

Dated Date: November 1, 2001  
Maturity Date: October 1, 2031 in the amount of \$30,000,000  
Interest Payment Dates: Interest will be paid semiannually on April 1 and October 1 with payments commencing April 1, 2002  
Rate of Interest: 5.35%

Redemption provisions:

The Bonds are subject to redemption as follows:

Optional Redemption. The Bonds are subject to redemption prior to maturity by the Authority, at the direction of the Company, on or after October 1, 2012, as a whole or in part at any time, at a redemption price of one hundred percent of the principal amount thereof, plus interest accrued to the date fixed for redemption.

Extraordinary Optional Redemption. The Bonds are subject to redemption by the Authority at the direction 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 Facilities are partially or totally damaged or destroyed by fire or other casualty and (1) the Company fails to make any determination within sixty (60) days after such damage or destruction, as to the restoration of the Facilities; (2) the Company determines within sixty (60) days after such damage or destruction that satisfactory restoration of the Facilities may not be made; or (3) after having made the determination to make such repair or restoration as permitted by the Agreement, the Company fails to proceed promptly with such restoration; or

(b) all or substantially all of the Facilities 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 Facilities are so taken or condemned and the Company determines that the remaining portion of the Facilities is unsuitable for the Company's business; or

(c) if changes in the economic availability of raw materials, operating supplies, labor or facilities necessary for the operation of the Facilities 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.

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 are not needed to pay Project Costs or costs of other permitted uses.

#### EXHIBIT A

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 Authority.
3. The execution and delivery of the Official Statement have been authorized by the Authority, .

4. The information and statements contained in the Official Statement under the sections captioned "INTRODUCTORY STATEMENT", "THE BONDS", "SECURITY FOR THE BONDS" and in APPENDIX C thereto (insofar as such information and statements purport to summarize provisions of the Bonds, the Trust Indenture and the Financing Agreement) accurately summarize in all material respects the provisions of the Bonds, the Trust Indenture and the Financing Agreement purported to be summarized therein, and statements set forth in the section captioned "TAX MATTERS" accurately summarizes in all material respects the matters purported to be summarized therein.

#### EXHIBIT B

Points to be covered in Opinion of Counsel for the Authority

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

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

2. The Authority has by proper action duly authorized the execution and issuance of the Bonds and the execution and delivery of the Authority Financing Documents. The Bonds have been duly and validly issued by the Authority and the Authority Financing Documents have each been duly and validly executed and delivered by the Authority and the Bonds and each of such documents are valid and binding agreements of the Authority, enforceable against the Authority 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 Authority of the Bonds, the execution and delivery by the Authority of the Authority Financing Documents and performance by the Authority of the Authority's obligations under the Bonds and the Authority's Financing Documents, do not conflict with or constitute on a part of the Authority 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 Authority is a party or by which the Authority 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 Authority 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 Authority, wherein an unfavorable decision, ruling or finding would materially and adversely affect the transactions contemplated by the Bonds.

5. The Authority 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 headings "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" 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.

#### EXHIBIT C

Points to be covered in Opinions of the Company's Legal and General 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, the First Mortgage Bond, Thirty-Fourth Supplemental Mortgage, Tax Clearance Certificate and the Continuing Disclosure Agreement. The execution, delivery and performance by the Company of the Financing Agreement, the Bond Purchase Agreement, the First Mortgage Bond, Thirty-Fourth Supplemental Mortgage, Tax Clearance Certificate 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, the First Mortgage Bond, the Thirty-Fourth Supplemental Mortgage and the Continuing Disclosure Agreement.

6. The First Mortgage Bond has been duly authorized, executed, authenticated, issued and delivered and constitutes a valid and legally binding obligation of the Company entitled to the benefits provided by the Mortgage.

7. The First Mortgage Bond is not subject to the registration requirements of the 1933 Act.

8. The Original Indenture has been duly authorized, executed and delivered by the Company and the Trustee and the Thirty-Fourth Supplemental Mortgage has been duly authorized, executed and delivered by the Company and the Trustee and recorded as required by law. The Mortgage (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 Mortgage) specifically or generally described or referred to in the Mortgage as being subject to the lien thereof, except for permitted liens under the Mortgage, and will create a similar lien upon all properties and assets acquired by the Company after the execution and delivery of the Thirty-Fourth Supplemental Mortgage and required to be subjected to the lien of the Mortgage pursuant thereto when so acquired, except for permitted liens under the Mortgage; the Mortgage 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 Mortgage; 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 Mortgage the mortgaged property or trust estate (as defined in the Mortgage) 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 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 to certain rights of way, easements, occupancy rights, riparian and flowage rights, licenses, leaseholds, 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 maybe described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage 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.

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, 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 Mortgage 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; 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, to its knowledge, 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 applicable provisions of the First Mortgage Bond and the Mortgage; the execution, delivery and performance by the Company of the Thirty-Fourth Supplemental Mortgage, 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 Mortgage) 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 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-Fourth Supplemental Mortgage, 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 Mortgage.

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, 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.

14. Such counsel shall also state that it has no reason to believe that the information with respect to the Company and the Project and the descriptions of the First Mortgage Bond and the Mortgage contained in the Preliminary Official Statement and 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 15, 2001

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Relating to  
\$30,000,000 aggregate principal amount of  
Delaware County Industrial Development Authority  
Water Facilities Revenue Bonds  
(Philadelphia Suburban Water Company Project), Series of 2001

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SUBSTANTIALLY ALL OF THE RIGHTS OF THE DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY IN AND TO THIS AGREEMENT HAVE BEEN ASSIGNED TO FIRST UNION NATIONAL BANK, AS TRUSTEE UNDER THE TRUST INDENTURE DATED AS OF OCTOBER 15, 2001 BETWEEN SAID AUTHORITY AND SAID TRUSTEE.

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CONSTRUCTION AND FINANCING AGREEMENT

THIS CONSTRUCTION AND FINANCING AGREEMENT, dated as of October 15, 2001 (as it may be amended, supplemented or otherwise modified and in effect from time to time, this "Agreement"), 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 (the "Authority"), and PHILADELPHIA SUBURBAN WATER COMPANY, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "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 (the "Act"), which Act declares it to be the policy of the Commonwealth of Pennsylvania (the "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 September 21, 2001 providing for the issuance and sale by the Authority of its revenue bonds to provide funds to pay all or a portion of (i) the costs of the acquisition, construction, installation and equipping of the Facilities (as defined in the Indenture hereinafter mentioned) and (ii) the costs of issuance relating thereto; 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 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 pay the principal of and interest on such revenue bonds as and when due; and

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

WHEREAS, the Company now desires that the Authority proceed with the issuance and sale of its revenue bonds to provide the funds to pay the costs of the Project (as defined in the Indenture) and related financing costs; and

WHEREAS, the Authority has authorized the issuance and sale of up to \$30,000,000 aggregate principal amount of its Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 2001 (the "2001 Bonds"), the proceeds of which shall be applied to pay and to reimburse the Company for its payment of the costs of the Project and related financing costs; and

WHEREAS, the 2001 Bonds are to be issued under and secured by a Trust Indenture, dated as of October 15, 2001 (as it may be amended, supplemented or otherwise modified and in effect from time to time, the "Indenture"), between the Authority and First Union National Bank, 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 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;

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

## ARTICLE I

### DEFINITIONS

SECTION 1.01. Definitions. Terms defined in the preambles hereof shall have the meanings ascribed thereto in such preambles. Other capitalized terms used herein and 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 respective meanings herein specified, unless the context clearly otherwise requires:

"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.

"Event of Default" shall mean any of the events specified as such under Section 7.01 hereof.

"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 the Project.

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

"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.

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## 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 full power and authority 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. The execution and delivery of this Agreement by the Authority and the performance of its obligations hereunder, 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 law, no taxes on income or profits are imposed on the Authority.

(d) As required by the Act, the Secretary of the Department of Community and Economic Development of the Commonwealth has determined that the Facilities and the financing thereof are in apparent conformity with the Act and any regulations, statements of policy, guidelines or rulings promulgated pursuant to the Act, and said Secretary has, by instrument dated August 29, 2001, approved the same and certified such approval to the Authority.

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:

(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 and authority 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. The execution and delivery of this Agreement by the Company and the 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 Project, as defined in the Act, is estimated by the Company as of the date hereof to be not less than \$30,000,000.

(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:

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(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.

(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.

### ARTICLE III

#### COMPLETION OF THE FACILITIES; ISSUANCE OF THE 2001 BONDS

SECTION 3.01. Portions of Project Completed. The acquisition or construction of certain of the Facilities has been commenced and, in some cases, 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 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, 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 thereof.

SECTION 3.03. Issuance of Bonds. In order to provide funds for payment of the Cost of the Project the Authority will issue and sell the 2001 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 2001 Bonds shall be deposited in the Debt Service Fund and the balance of the proceeds received from said sale shall be deposited in the Construction Fund. The Company hereby approves all of the terms, provisions and other details of the 2001 Bonds and the Indenture.

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 the Project upon receipt of Requisitions signed by an Authorized Company Representative, setting forth the matters required pursuant to Exhibit "B" to the Indenture.

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 Project as defined in the Act or which, if paid, would result in less than 95% of the proceeds from the 2001 Bonds being used to acquire, construct, install and equip the Facilities.

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SECTION 3.06. Plans and Specifications. The Company may revise the Plans and Specifications, which revisions may add structures, equipment, fixtures and machinery not described in Exhibit A hereto, and which revisions may effect 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 the Project in accordance with the revised Plans and Specifications will not adversely affect the exclusion of interest on the 2001 Bonds from gross proceeds of the holders thereof for federal income purposes.

SECTION 3.07. Completion of Project. When the Project has 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 Costs of the Project 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.

SECTION 3.08. Company to Pay Additional Amounts If Required. If the moneys in the Construction Fund shall not be sufficient to pay the Costs of the Project 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 Costs of the Project. If the Company shall pay any portion of the Costs of the Project 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 2001 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. 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.

#### ARTICLE IV

##### LOAN AND OTHER AMOUNTS

SECTION 4.01. Loan by Authority to Company. Concurrently with the execution and delivery of this Agreement and at the request of the Company, the Authority is issuing the 2001 Bonds under the Indenture. The Authority hereby agrees to make a loan to the Company in the principal amount of \$30,000,000, such amount being equal to the aggregate principal amount of the 2001 Bonds, and the deposit by the Authority of the proceeds of the sale of the 2001 Bonds in accordance with Section 3.03 hereof shall be deemed to constitute the advance by the Authority to the Company of the full principal amount of the Loan.

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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 2001 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 2001 Bonds; plus (y) the principal amount of the 2001 Bonds, if any, maturing on such date; plus (z) the principal amount of and premium, if any, on the 2001 Bonds, if any, to be redeemed on such date; and (ii) on any date on which the 2001 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

2001 Bonds (all of the foregoing are collectively referred to herein as the "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 2001 Bonds in such manner, consistent with the provisions of the Indenture, as may be directed by the Company.

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 2001 Bonds.

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

It is the intent of this Agreement that the Company shall make Loan Repayments hereunder at such times and in such amounts as shall be sufficient to enable the Authority to make full and timely payment of principal or Redemption Price of, and interest on, the 2001 Bonds. Accordingly, notwithstanding any other provision hereof to the contrary, if for any reason the amounts paid by the Company pursuant to this Section 4.02(a) or pursuant to the other provisions of this Agreement, together with any other amounts available therefor under the Indenture, are at any time insufficient to make payments of the principal or Redemption Price of and interest on the 2001 Bonds when due, whether at maturity, upon redemption, by acceleration or otherwise, the Company will forthwith pay to the Trustee the amount required to make up such deficiency.

(b) Other Amounts. The Company agrees to make additional payments as follows:

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(i) to the Authority on the date of issuance and delivery of the 2001 Bonds, a loan closing fee of \$29,500 (less any portion of such fee paid by the Company to the Authority as a deposit upon submission of the Company's financing application), and to the Authority upon its submission of an invoice therefor to the Company from time to time, an annual fee and a termination fee of such amount as the Authority may customarily charge from time to time;

(ii) to the Authority upon its written request at any time, an amount equal to the reasonable expenses incurred by the Authority in enforcing the provisions of this Agreement or the Indenture, or incurred in defending any action or proceeding with respect to the Facilities, this Agreement, the Tax Compliance Agreement or the Indenture and not otherwise required to be paid by the Company under this Agreement;

(iii) to the Trustee upon its written request, an amount equal to the reasonable fees and charges of the Trustee for its services and the reasonable expenses incurred by it in connection with the Indenture and this Agreement (including without limitation the reasonable fees and expenses of any attorneys retained by the Trustee), in accordance with any separate agreement between the Company and the Trustee with respect thereto; and

(iv) to the Trustee, for deposit to the credit of the Rebate Fund established under the Indenture, any amount required to be deposited in the Rebate Fund pursuant to the Indenture and the Tax Compliance Agreement at the times required under the Indenture and the Tax Compliance Agreement.

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 such principal amounts and with such interest rate, interest payment and maturity dates and redemption provisions as may correspond to such provisions of the 2001 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 2001 Bonds.

SECTION 4.04. Assignment to Trustee. It is understood and agreed that the obligations of the Company to make the Loan Repayments under this Agreement and the payments under the First Mortgage Bond are to be assigned and pledged by the Authority to the Trustee. The Company consents to such assignment and pledge and agrees that, as to the Trustee, its obligation to make such Loan Repayments and the payments required under the First Mortgage Bond shall be absolute and unconditional and shall not be subject to any defense (other than full and indefeasible 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 Loan Repayments 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.

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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.

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 the First Mortgage Bond and all lawful claims or demands which, if unpaid, might be or become a lien upon any Loan Repayments hereunder or upon the First Mortgage Bond. 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 or as to the First Mortgage Bond 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 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. The obligations of the Company to make the Loan Repayments and other payments required pursuant to this Agreement and to perform and observe the other agreements contained herein shall be absolute and unconditional until such time as the principal of, premium, if any, and interest on the 2001 Bonds are paid in full. The Company will not suspend or discontinue, or permit the suspension or discontinuance of, any payment provided for in this Agreement or the performance or observance of any of the Company's obligations hereunder, for any reason or cause whatsoever, including (without limiting the generality of the foregoing), any destruction of or damage to, or any condemnation or taking by any public or private entity of, all or any portion of the Facilities; the occurrence of any Final Determination of Taxability with respect to any of the 2001 Bonds; any acts or circumstances which may constitute failure of consideration or commercial frustration of purpose; any change in the tax or other laws or administrative rulings of or administrative actions by the United States or the Commonwealth or any political subdivision of either; or any failure of the Authority, the Trustee, any other Paying Agent or the Bond Insurer to perform and to observe any agreement, whether express or implied, or any duty, liability or obligation, arising out of or connected with this Agreement, the Indenture, the Financial Guaranty Insurance Policy, the Tax Compliance Agreement or the 2001 Bonds, as the case may be.

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## 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 in the Agreement and in the First Mortgage Bond, (b) the Company delivers to the Authority, the Trustee and the Bond Insurer a Favorable Opinion of Recognized Bond Counsel with respect to such action, and (c) the successor corporation 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 such successor is not a Pennsylvania corporation.

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 all necessity tariffs, licenses and permits.

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 Project and the 2001 Bonds. 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 2001 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 and the Continuing Disclosure Agreement.

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SECTION 5.07. Certain Tax Covenants. The Company will comply with all provisions of the Tax Compliance Agreement applicable to 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 2001 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 2001 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 2001 Bonds during any period when such Bonds are held by a "substantial user" of the Facilities financed by the 2001 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 2001 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 and Other Reporting Requirements of the Company. The Company shall furnish to the Authority, the Trustee and the Bond Insurer within 120 days after the end of the Company's fiscal year copies of the Company's audited financial statements for such fiscal year. The Company shall also furnish to the Bond Insurer such additional information as the Bond Insurer may reasonably request from time to time. The Company will permit the Bond Insurer to discuss the affairs, finances and accounts of the Company or any information the Bond Insurer may reasonably request regarding the security for the 2001 Bonds with appropriate officers of the Company. The Company will permit the Bond Insurer to have access to the Facilities and to have access to and to make copies of all books and records relating to the 2001 Bonds at any reasonable time.

SECTION 5.09. Nondiscrimination Provisions. In connection with the Project and the operation of the Facilities, the Company shall comply with the nondiscrimination provisions attached to this Agreement as Exhibit B and by this reference made a part hereof.

## 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 permitted in the Mortgage Indenture and in this Agreement. 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).

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(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 all Loan Repayments and all other payment obligations under this Agreement 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.

(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.

(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, is permissible under this Agreement, the Mortgage Indenture and the Act and will not adversely affect the exclusion of interest on the 2001 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 the Authority's Reserve Rights), 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.

Except as provided in this Section 6.02, the Authority will not otherwise sell, assign, transfer, convey or dispose of the revenues from the Facilities or the Loan Repayments 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.

## 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:

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(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 the expiration of such period; 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 the expiration of such period; 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.

(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 8.10 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, 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.

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This Section 7.01(c) shall not apply to any Event of Default described in Section 7.01(a)(i) or 7.01(a)(ii), and 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 hereof shall have happened and be continuing, any one or more of the following remedial steps may be taken:

(a) The Authority or the Trustee, as the assignee of the Authority, at its option, may declare the unpaid principal balance of the Loan to be immediately due and payable, whereupon the same, together with all other amounts due from the Company then accrued and unpaid, shall become immediately

due and payable; and

(b) The Authority or the Trustee, as the assignee of 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.

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 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 (other than in respect of the Authority's Reserved Rights) without the written consent of the Trustee to such exercise or waiver, or, if the maturity of the Outstanding 2001 Bonds shall have been accelerated pursuant to the Indentures, the consent of the holders of a majority in principal amount of the 2001 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 2001 Bonds, no consent of the Trustee shall be required, and the Authority shall be obligated to waive the Company's default hereunder.

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#### ARTICLE VIII

#### MISCELLANEOUS

SECTION 8.01. Termination. This Agreement shall terminate upon payment in full of the 2001 Bonds (including interest and premium, if any, thereon), or the making of provision for payment thereof in accordance with the provisions of the Indenture, and payment of all other amounts owing to the Authority and the Trustee hereunder and under the Indenture.

Any amounts, other than amounts being held for payment of the 2001 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 hereunder shall be given in the manner and to the locations specified in Section 14.08 of the Indenture with respect to notices given thereunder.

SECTION 8.03. Benefit of Agreement. This Agreement shall inure to the benefit of and shall be binding upon the Authority, the Company and the Trustee and their respective successors and assigns.

SECTION 8.04. Amendments. This Agreement may be amended in any respect but only by written agreement of the parties hereto and subject to the additional requirements relating to such amendments set forth in the Indenture.

Any provision of this Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer hereunder without the prior written consent of the Bond Insurer.

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 all 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.

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 said officers, members, employees and agents 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 said officers, agents, members or employees.

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(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 2001 bonds and the resignation or removal of the Trustee for any reason.

(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) of 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 2001 Bonds, the Indenture or any other document or instrument delivered in connection with the issuance of the 2001 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 2001 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.

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(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.

(g) The obligations and liabilities of the Company under this Section 8.08 shall survive the termination of this Agreement and the payment of the 2001 Bonds.

#### 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 Authority's Reserved Rights), 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 will be Company ever raise as a defense in any proceedings whatsoever that the Authority is a true party in interest.

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.

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#### 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 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 Trust Estate and the lien of any judgment shall be restricted thereto. 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 Person 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.

(b) No recourse under or upon any obligation, covenant or agreement contained herein or in any 2001 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, it being expressly agreed and understood that the obligations of the Authority hereunder, and under the 2001 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 2001 Bonds or implied therefrom.

[The balance of this page is intentionally left blank.]

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

DELAWARE COUNTY INDUSTRIAL  
DEVELOPMENT AUTHORITY



By: /s/ Henry Coleman

-----  
(Vice) Chairman

PHILADELPHIA SUBURBAN  
WATER COMPANY

By: /s/ Kathy L. Pape

-----  
Vice President and Treasurer

[Signature Page to Construction and Financing Agreement]

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EXHIBIT "A"

DESCRIPTION OF THE FACILITIES

(Attached)

EXHIBIT "B"

NONDISCRIMINATION PROVISIONS

During the term of this Agreement, the Company agrees as to itself and each tenant of the Project controlling, controlled by or under common control with the Company (each of the Company and each such tenant, a "Contractor") as follows:

1. Contractor shall not discriminate against any employee, applicant for employment, independent contractor or any other Person because of race, color, religious creed, handicap, ancestry, national origin, age or sex. Contractor shall take affirmative action to insure that applicants are employed, and that employees or agents are treated during employment, without regard to their race, color, religious creed, handicap, ancestry, national origin, age or sex. Such affirmative action shall include, but not limited to: employment, upgrading, demotion or transfer, recruitment or recruitment advertising; layoff or termination; rates of pay or other forms of compensation; and selection for training. Contractors shall post in conspicuous places available to employees, agents, applicants for employment and other Persons a notice to be provided by the contracting agency setting forth these nondiscrimination provisions.

2. Contractor shall in advertisements or requests for employment placed by it or on its behalf, state that all qualified applicants will receive consideration for employment without regard to race, color,

religious creed, handicap, ancestry, national origin, age or sex.

3. Contractor shall send each to labor union or workers' representative with which it has a collective bargaining agreement or other contract or understanding, a notice advising said labor union or workers' representative of its commitment to these nondiscrimination provisions. Similar notice shall be sent to every other source of recruitment regularly utilized by Contractor.

4. It shall be no defense to a finding of noncompliance with these nondiscrimination provisions that Contractor has delegated some of its employment practices to any union, training program or other source of recruitment which prevents it from meeting its obligations. However, if the evidence indicates that Contractor was not on notice of the third-party discrimination or made a good faith effort to correct it, such factor shall be considered a mitigating circumstance in determining appropriate sanctions.

5. Where the practices of a union or of any training program or other program of recruitment will result in the exclusion of minority group Persons, so that Contractor will be unable to meet its obligations under these nondiscrimination provisions, Contractor shall then employ and fill vacancies through other nondiscriminatory employment procedures.

6. Contractor shall comply with all state and federal laws prohibiting discrimination in hiring or employment opportunities. In the event of Contractor's noncompliance with these nondiscrimination provisions or with any such laws, an Event of Default under this Agreement shall be deemed to have occurred and Contractor may be declared temporarily ineligible for further Commonwealth of Pennsylvania contracts, and other sanctions may be imposed and remedies invoked.

7. Contractor shall furnish all necessary employment documents and records to, and permit access to its books, records and accounts by, the Issuer for purposes of investigation to ascertain compliance with these nondiscrimination provisions. If Contractor does not possess documents or records reflecting the necessary information requested, it shall furnish such information on reporting forms supplied by the Issuer.

8. Contractor shall actively recruit minority subcontractors and women subcontractors or subcontractors with substantial minority or women representation among their employees.

9. Contractor shall include these nondiscrimination provisions in every subcontract, so that such provisions will be binding upon each subcontractor.

10. Contractor obligations under these nondiscrimination provisions are limited to Contractor's facilities within Pennsylvania or, where the contract is for purchase of goods manufactured outside of Pennsylvania, the facilities at which such goods are actually produced.

AMENDED AGREEMENT

THIS Amended Agreement made as of the 7th day of August 2001, by and between Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Nicholas DeBenedictis (the "Executive").

WHEREAS, the Executive is presently employed by PSC, as its Chairman, Chief Executive Officer and President and provides executive services as an officer of Philadelphia Suburban Water Company ("PSW"); and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of PSC, PSC and PSW, for which certain of the employees of PSC, such as the Executive, provide key executive services, entered into an Agreement, effective as of January 1, 1997, to provide that the Executive would receive certain compensation in the event his employment with PSC or PSW is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, the agreement was amended effective as of February 1, 1999, to clarify the term of the Agreement; and

WHEREAS, PSC and PSW wish to amend and restate the Agreement at this time to clarify certain rights of the Executive, incorporate the amendment that was made to the Agreement effective as of February 1, 1999, and to make other desirable changes; and

WHEREAS, PSW is willing to enter into this Agreement along with PSC in light of Executive's role in the management of the affairs of PSW and its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total of cash base salary and annual bonus paid to, and dividend equivalents under the Equity Compensation Plan accrued for, the Executive in each calendar year in all capacities with PSC, PSW and their Subsidiaries or Affiliates, as would be reported for Federal income tax purposes on Form W-2 if currently subject to tax, together with (i) any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of PSC, PSW and their Subsidiaries or Affiliates, or otherwise, (ii) any and all salary reduction authorized amounts under any of the benefit plans or programs of PSC, PSW and

their Subsidiaries or Affiliates, (iii) the value, as shown in PSC's Proxy, for each calendar year in which a grant was made, of the stock option grants made to the Executive under the Equity Compensation Plan, but excluding any amounts attributable to the exercise of stock options, and (iv) the value, based on the average value of shares vesting in each year, of the grants of Restricted Stock made to the Executive under the Equity Compensation Plan, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

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

(e) "Change of Control" shall mean:

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

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

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity. Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if

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

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

(g) "Equity Compensation Plan" shall mean PSC's 1994 Equity Compensation Plan, and its predecessors and successors.

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

(i) any failure of PSC or PSW or their successor(s) to comply with and satisfy any of the terms of this Agreement;

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

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

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

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

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

(vii) the Executive determines, in his sole discretion, at any time within 12 months after the Change of Control, that circumstances have changed with respect to PSC or PSW, and that he is no longer able to effectively perform his duties and responsibilities.

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

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

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

(l) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with PSC, PSW and any of their Subsidiaries that actually employs the Executive.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 12 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, PSC shall pay to the Executive, upon the execution of a release in the form required by PSC or PSW of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to three times the Executive's Base Compensation, subject to required employment taxes and deductions. In the event that PSC does not satisfy its obligation hereunder within the required time period, PSW shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSW that PSC has not satisfied its obligation (or a portion thereof) to the Executive.

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

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4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of PSC or PSW, and their Subsidiaries or Affiliates. In addition, the Executive shall be entitled to (i) a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of three years, (ii) for a one-year period after the Termination Date, the provision by PSC or the Company of office space and secretarial support equivalent to what was provided to the Executive in the calendar year immediately preceding the Change of Control, (iii) continued use of the automobile furnished to the Executive for the lesser of (1) three years after the Termination Date or (2) the balance of the applicable lease term, if any, in either case to the same extent as was provided to the Executive in the calendar year immediately preceding the Change of Control and the ability to purchase such automobile from PSC or PSW at its book value at the completion of such period, (iv) fully-paid executive level outplacement services from the provider of the Executive's choice for 12 months following the Termination Date, and (v) a transfer, without requiring a cash payment from him, of any life insurance policy maintained by PSC or PSW on his life pursuant to a split dollar life insurance agreement.

5. Restrictive Covenant.

(a) In exchange for the payments and benefits provided under this Agreement, for a period of 12 months after the Termination Date, the Executive agrees that he will not, unless acting pursuant with the prior written consent of the Board, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with or use or permit his name to be used in connection with, any business or enterprise engaged in a geographic area in which PSC or any of its Subsidiaries is operating on the Termination Date (the "Geographic Area"), in any business that is competitive to

a business from which PSC and any of its Subsidiaries, taken as a whole, derived at least ten percent of its respective annual gross revenues for the twelve (12) months preceding the Termination Date. It is recognized by the Executive that the business of PSC and its Subsidiaries and the Executive's connection therewith is or will be involved in activity throughout the Geographic Area, and that more limited geographical limitations on this non-competition covenant are therefore not appropriate. The foregoing restriction shall not be construed to prohibit the ownership by the Executive of less than one percent of any class of securities of any corporation which is engaged in any of the foregoing businesses having a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither the Executive nor any group of persons including the Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising his rights as a shareholder, or seeks to do any of the foregoing.

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(b) The Executive acknowledges that the restrictions contained in paragraph (a) are reasonable and necessary to protect the legitimate interests of PSC and its Subsidiaries and Affiliates, and that any violation of those provisions will result in irreparable injury to PSC. The Executive represents that his experience and capabilities are such that the restrictions contained in paragraph (a) will not prevent the Executive from obtaining employment or otherwise earning a living at the same general level of economic benefit as is the case as of the date hereof. The Executive agrees that PSC shall be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages, which right shall be cumulative and in addition to any other rights or remedies to which PSC may be entitled. In the event that any of the provisions of paragraph (a) should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law.

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

#### 7. Enforcement.

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

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, PSC shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of PSC or PSW under this Agreement.

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

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

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

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

12. Certain Conditional Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by PSC to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the Executive shall be paid an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive after deduction of any excise tax imposed under Section 4999 of the Code, and any federal, state and local income and employment tax and excise tax imposed upon the Gross-Up Payment shall be equal to the Payment. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income tax and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence (or, if greater, the state and locality in which the Executive is required to file a nonresident income tax return with respect to the Payment) on the Termination Date, net of the maximum reduction in federal income taxes that may be obtained from the deduction of such state and local taxes.

(b) All determinations to be made under this Section 12 shall be made by PSC's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to PSC and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon PSC and the Executive. Within five days after the Accounting Firm's determination, PSC shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) The Executive shall notify PSC in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by PSC of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive knows of such claim and shall apprise PSC of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the thirty-day period following the date on which it gives such notice to PSC (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If PSC notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

- (i) give PSC any information reasonably requested by PSC relating to such claim,
- (ii) take such action in connection with contesting such claim as PSC shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney mutually agreed to by the Executive and PSC,
- (iii) cooperate with PSC in good faith in order to effectively contest such claim, and



- (iv) permit PSC to participate in any proceedings relating to such claim;

provided, however, that PSC shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, income tax or employment tax, including interest and penalties, with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 12, PSC shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearing and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a termination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as PSC shall determine; provided, however, that if PSC directs the Executive to pay such claim and sue for a refund PSC shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, income tax or employment tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and provided, further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, PSC's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of an amount advanced by PSC pursuant to this Section, the Executive receives any refund with respect to such claim, the Executive shall (subject to PSC's complying with the requirements of subsection (a)) promptly pay to PSC the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by PSC pursuant to this Section, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and PSC does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of thirty days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid as a result of the final determination.

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

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

14. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or PSW, or of any of their Subsidiaries that actually employ the Executive, by agreement in form and

substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated with PSC and PSW to perform this Agreement in the same manner and to the same extent that PSC and PSW would be required to perform if no such succession or successions had taken place. Failure of PSC or PSW to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and PSW shall mean PSC and PSW, respectively, and their Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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

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If to PSC or to PSW, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: Chairman, Executive Compensation  
and Employee Benefits Committee

If to the Executive, to:

Mr. Nicholas DeBenedictis  
231 Golf View Road  
Ardmore, PA 19003

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

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

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

18. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Executive any right to be retained in the employ of PSC, PSW or any of their subsidiaries.

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

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

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

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

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

24. Sole Agreement. In the event of a Termination of Employment following a Change of Control, a portion of the payment made to the Executive under Section 3 above, equal to one year of the Executive's base salary, shall be in lieu of the payment due to the Executive in the event his employment were actually or constructively terminated by PSC or PSW under, and this Agreement shall thereafter supersede, the next to the last paragraph of the Letter Agreement dated May 20, 1992, between PSC and the Executive with respect to the severance payment due to the Executive upon termination.

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

ATTEST: PHILADELPHIA SUBURBAN CORPORATION  
/s/ Suzanne Falcone By /s/ Roy H. Stahl  
-----  
Secretary

ATTEST: PHILADELPHIA SUBURBAN WATER COMPANY  
/s/ Suzanne Falcone By /s/ Roy H. Stahl  
-----  
Secretary

/s/ Maria Torres /s/ Nicholas DeBenedictis  
-----  
Witness Nicholas DeBenedictis

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AMENDED AGREEMENT

THIS Amended Agreement made as of the 7th day of August, 2001, by and between Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Roy H. Stahl (the "Executive").

WHEREAS, the Executive is presently employed by PSC, as its Executive Vice President and General Counsel and also serves as an officer of Philadelphia Suburban Water Company ("PSW"); and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of PSC, PSC and PSW, for which certain of the employees of PSC, such as the Executive, provide key executive services, entered into an Agreement, effective as of January 1, 1997, to provide that the Executive would receive certain compensation in the event his employment with PSC or PSW is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, the agreement was amended effective as of February 1, 1999, to clarify the term of the Agreement; and

WHEREAS, PSC and PSW wish to amend and restate the Agreement at this time to clarify certain rights of the Executive, incorporate the amendment that was made to the Agreement effective as of February 1, 1999, and to make other desirable changes; and

WHEREAS, PSW is willing to enter into this Agreement with PSC in light of his role in the management of the affairs of PSW or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total of cash base salary and annual bonus paid to, and dividend equivalents under the Equity Compensation Plan accrued for, the Executive in each calendar year in all capacities with PSC, PSW and their Subsidiaries or Affiliates, as would be reported for Federal income tax purposes on Form W-2 if currently subject to tax, together with (i) any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of PSC, PSW and their Subsidiaries or Affiliates, or otherwise, (ii) any and all salary reduction authorized amounts under any of the benefit plans or programs of PSC, PSW and their Subsidiaries or Affiliates, (iii) the value, as shown in PSC's Proxy, for each calendar year in which a grant was made, of the stock option grants made to the Executive under the Equity Compensation Plan, but excluding any amounts

attributable to the exercise of stock options, and (iv) the value, based on the average value of shares vesting in each year, of any grants of Restricted Stock made to the Executive under the Equity Compensation Plan, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

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

(e) "Change of Control" shall mean:

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

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

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity. Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests

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

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

(g) "Equity Compensation Plan" shall mean PSC's 1994 Equity Compensation Plan, and its predecessors and successors.

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

(i) any failure of PSC or PSW or their successor(s) to comply with and satisfy any of the terms of this the Agreement;

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

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

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

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

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

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

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

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

(l) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with PSC, PSW and any of their Subsidiaries that actually employs the Executive.

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2. Notice of Termination. Any Termination of Employment following a Change of Control shall be communicated by a Notice of Termination to the other party hereto given in accordance with Section 14 hereof. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific provision in this Agreement relied upon, (ii) briefly summarizes the facts and circumstances deemed to provide a basis for the Executive's Termination of Employment under the provision so indicated, and (iii) if the

Termination Date is other than the date of receipt of such notice, specifies the Termination Date (which date shall not be more than 15 days after the giving of such notice).

### 3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, PSC shall pay to the Executive, upon the execution of a release in the form required by PSC or PSW of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions. In the event that PSC does not satisfy its obligation hereunder within the required time period, PSW shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSW that PSC has not satisfied its obligation (or a portion thereof) to the Executive.

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

4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of PSC or PSW, and their Subsidiaries or Affiliates. In addition, the Executive shall be entitled to (i) a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two years, (ii) continued use of the automobile furnished to the Executive for the lesser of (1) two years after the Termination Date or (2) the balance of the applicable lease term, if any, in either case to the same extent as was provided to the Executive in the calendar year immediately preceding the Change of Control and the ability to purchase such automobile from PSC or PSW at its book value at the completion of such period, and (iii) fully-paid executive level outplacement services from the provider of the Executive's choice for 6 months following the Termination Date.

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

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### 6. Enforcement.

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

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, PSC shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses)

incurred by the Executive in enforcing any of the obligations of PSC or PSW under this Agreement.

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

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

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

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

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#### 11. Certain Reduction of Payments.

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

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

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by PSC which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by PSC could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and PSC shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to PSC together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f) (2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to PSC if and to the extent such payment would not reduce the limit on



the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by PSC to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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

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

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

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

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If to PSC or to PSW, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: Chairman, Executive Compensation  
and Employee Benefits Committee

If to the Executive, to:

Mr. Roy H. Stahl  
1884 Black Rock Lane  
Paoli, PA 19301

or to such other names or addresses as PSC or the Executive, as the case may be,

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

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

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

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

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

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

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

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

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

and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

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

ATTEST:

PHILADELPHIA SUBURBAN CORPORATION

/s/ Suzanne Falcone

By /s/ David P. Smeltzer

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Secretary

ATTEST:

PHILADELPHIA SUBURBAN WATER COMPANY

/s/ Suzanne Falcone

By /s/ David P. Smeltzer

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Secretary

EXECUTIVE

/s/ Corinne J. Stahl

/s/ Roy H. Stahl

-----  
Witness

## AMENDED AGREEMENT

THIS Amended Agreement made as of the 7th day of August, 2001, by and between Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Richard R. Riegler (the "Executive").

WHEREAS, the Executive is presently employed by PSC, as its Senior Vice President - Engineering and Environmental Affairs and also serves as an officer of Philadelphia Suburban Water Company ("PSW"); and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of PSC, PSC and PSW, for which certain of the employees of PSC, such as the Executive, provide key executive services, entered into an Agreement, effective as of January 1, 1997, to provide that the Executive would receive certain compensation in the event his employment with PSC or PSW is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, the agreement was amended effective as of February 1, 1999, to clarify the term of the Agreement; and

WHEREAS, PSC and PSW wish to amend and restate the Agreement at this time to clarify certain rights of the Executive, incorporate the amendment that was made to the Agreement effective as of February 1, 1999, and to make other desirable changes; and

WHEREAS, PSW is willing to enter into this Agreement with PSC in light of his role in the management of the affairs of PSW or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total of cash base salary and annual bonus paid to, and dividend equivalents under the Equity Compensation Plan accrued for, the Executive in each calendar year in all capacities with PSC, PSW and their Subsidiaries or Affiliates, as would be reported for Federal income tax purposes on Form W-2 if currently subject to tax, together with (i) any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of PSC, PSW and their Subsidiaries or Affiliates, or otherwise, (ii) any and all salary reduction authorized amounts under any of the benefit plans or programs of PSC, PSW and their Subsidiaries or Affiliates, (iii) the value, as shown in PSC's

Proxy, for each calendar year in which a grant was made, of the stock option grants made to the Executive under the Equity Compensation Plan, but excluding any amounts attributable to the exercise of stock options, and (iv) the value, based on the average value of shares vesting in each year, of any grants of Restricted Stock made to the Executive under the Equity Compensation Plan, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

(c) A Person shall be deemed the "Beneficial Owner" of any securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person

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

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

(e) "Change of Control" shall mean:

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

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

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(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its

shareholders or PSC is merged into or is merged with an unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity. Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e) (i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of PSC, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. '2543(b)) as in effect on the date of adoption of the Plan.

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

(g) "Equity Compensation Plan" shall mean PSC's 1994 Equity Compensation Plan, and its predecessors and successors.

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

(i) any failure of PSC or PSW or their successor(s) to comply with and satisfy any of the terms of this the Agreement;

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

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

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

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

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

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

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

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

(l) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with PSC, PSW and any of their Subsidiaries that actually employs the Executive.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either

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event within two years after a Change of Control, PSC shall pay to the Executive, upon the execution of a release in the form required by PSC or PSW of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions. In the event that PSC does not satisfy its obligation hereunder within the required time period, PSW shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSW that PSC has not satisfied its obligation (or a portion thereof) to the Executive.

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

4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of PSC or PSW, and their Subsidiaries or Affiliates. In addition, the Executive shall be entitled to (i) a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two years, (ii) continued use of the automobile furnished to the Executive for the lesser of (1) two years after the Termination Date or (2) the balance of the applicable lease term, if any, in either case to the same extent as was provided to the Executive in the calendar year immediately preceding the Change of Control and the ability to purchase such automobile from PSC or PSW at its book value at the completion of such period, and (iii) fully-paid executive level outplacement services from the provider of the Executive's choice for 6 months following the Termination Date.

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

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6. Enforcement.

(a) In the event that PSC (or PSW, as appropriate) shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, PSC shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as appropriate,

until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, PSC shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of PSC or PSW under this Agreement.

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

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

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

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

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#### 11. Certain Reduction of Payments.

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

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

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case



may be, will have been made by PSC which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by PSC could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and PSC shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to PSC together with interest from the date of payment

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under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to PSC if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by PSC to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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

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

13. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or PSW, or of any of their Subsidiaries that actually employ the Executive, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated with PSC and PSW to perform this Agreement in the same manner and to the same extent that PSC and PSW would be required to perform if no such succession or successions had taken place. Failure of PSC or PSW to notify the

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Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and the Company shall mean PSC and PSW, respectively, and their Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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

If to PSC or to PSW, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: Chairman, Executive Compensation  
and Employee Benefits Committee

If to the Executive, to:

Mr. Richard R. Riegler  
2592 Sibel Circle  
Lansdale, PA 19446

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

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

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

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

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

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

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

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21. Miscellaneous. All section headings are for convenience

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

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

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

ATTEST: PHILADELPHIA SUBURBAN CORPORATION  
/s/ Suzanne Falcone By /s/ Roy H. Stahl  
-----  
Secretary

ATTEST: PHILADELPHIA SUBURBAN WATER COMPANY  
/s/ Suzanne Falcone By /s/ Roy H. Stahl  
-----  
Secretary

EXECUTIVE  
/s/ Branda A. Davis /s/ Richard R. Riegler  
-----  
Witness

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AMENDED AGREEMENT

THIS Amended Agreement made as of the 7th day of August, 2001, by and between Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and David P. Smeltzer (the "Executive").

WHEREAS, the Executive is presently employed by PSC, as its Senior Vice President - Finance and Chief Financial Officer and also serves as an officer of Philadelphia Suburban Water Company ("PSW"); and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of PSC, PSC and PSW, for which certain of the employees of PSC, such as the Executive, provide key executive services, entered into an Agreement, effective as of January 1, 1997, to provide that the Executive would receive certain compensation in the event his employment with PSC or PSW is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, the agreement was amended effective as of December 1, 1999, and WHEREAS, PSC and PSW wish to amend and restate the Agreement at this time to clarify certain rights of the Executive, incorporate the amendment that was made to the Agreement effective as of February 1, 1999, and to make other desirable changes; and

WHEREAS, PSW is willing to enter into this Agreement with PSC in light of his role in the management of the affairs of PSW or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total of cash base salary and annual bonus paid to, and dividend equivalents under the Equity Compensation Plan accrued for, the Executive in each calendar year in all capacities with PSC, PSW and their Subsidiaries or Affiliates, as would be reported for Federal income tax purposes on Form W-2 if currently subject to tax, together with (i) any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of PSC, PSW and their Subsidiaries or Affiliates, or otherwise, (ii) any and all salary reduction authorized amounts under any of the benefit plans or programs of PSC, PSW and their Subsidiaries or Affiliates, (iii) the value, as shown in PSC's Proxy, for each calendar year in which a grant was made, of the stock option grants made to the Executive under the Equity Compensation Plan, but excluding any amounts attributable to the exercise of stock options, and (iv) the value, based on the

average value of shares vesting in each year, of any grants of Restricted Stock made to the Executive under the Equity Compensation Plan, for the three calendar years (or such number of actual full calendar years of employment, if less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

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

(e) "Change of Control" shall mean:

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

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

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity. Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of PSC, or (ii) the shares of Common Stock required to be counted in order to meet

the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. '2543(b)) as in effect on the date of adoption of the Plan.

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

(g) "Equity Compensation Plan" shall mean PSC's 1994 Equity Compensation Plan, and its predecessors and successors.

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

(i) any failure of PSC or PSW or their successor(s) to comply with and satisfy any of the terms of this the Agreement;

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

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

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

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

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

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

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

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

(l) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with PSC, PSW and any of their Subsidiaries that actually employs the Executive.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, PSC shall pay to the Executive, upon the execution of a release in the form required by PSC or PSW of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions. In the event that PSC does not satisfy its obligation hereunder within the required time period, PSW shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSW that PSC has not satisfied its obligation (or a portion thereof) to the Executive.

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

4. Other Payments and Benefits. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of PSC or PSW, and their Subsidiaries or Affiliates. In addition, the Executive shall be entitled to (i) a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two years, (ii) continued use of the automobile furnished to the Executive for the lesser of (1) two years after the Termination Date or (2) the balance of the applicable lease term, if any, in either case to the same extent as was provided to the Executive in the calendar year immediately preceding the Change of Control and the ability to purchase such automobile from PSC or PSW at its book value at the completion of such period, and (iii) fully-paid executive level outplacement services from the provider of the Executive's choice for 6 months following the Termination Date.

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

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#### 6. Enforcement.

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

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, PSC shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of PSC or PSW under this Agreement.

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

for herein be reduced by any compensation earned by other employment or otherwise.

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

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

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

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11. Certain Reduction of Payments.

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

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

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



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

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

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

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

If to PSC or to PSW, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: Chairman, Executive Compensation  
and Employee Benefits Committee

If to the Executive, to:

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

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

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

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

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

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

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

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

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

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

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

ATTEST:

PHILADELPHIA SUBURBAN CORPORATION

/s/ Suzanne Falcone

By /s/ Roy H. Stahl

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Secretary

ATTEST:

PHILADELPHIA SUBURBAN WATER COMPANY

/s/ Suzanne Falcone

By /s/ Roy H. Stahl

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Secretary

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EXECUTIVE

/s/ Robert Rubin

/s/ David P. Smeltzer

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Witness

Philadelphia Suburban Corporation and Subsidiaries  
Selected Portions of Annual Report to Shareholders for the year ended  
December 31, 2001

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS  
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This report by Philadelphia Suburban Corporation ("we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements address, among other things: our use of cash; projected capital expenditures; liquidity; as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" or similar expressions. These statements are based on a number of assumptions concerning future events, and are subject to a number of uncertainties and other factors, many of which are outside our control. Actual results may differ materially from such statements for a number of reasons, including the effects of regulation, abnormal weather, changes in capital requirements and funding, and the success of our growth strategy. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

GENERAL INFORMATION  
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Philadelphia Suburban Corporation is the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. Our two primary subsidiaries are Pennsylvania Suburban Water Company ("PSW"), a regulated public utility that provides water or wastewater services to about 1.3 million residents in the suburban areas north and west of the City of Philadelphia and in ten other counties in Pennsylvania, and Consumers Water Company ("CWC"), a holding company for several regulated public utility companies that provide water or wastewater service to about 700,000 residents in various communities in the other states where we operate. We are among the largest investor-owned water utilities in the United States based on the number of customers. In addition, we provide water service to approximately 35,000 people through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. Some of our subsidiaries provide wastewater services (primarily residential) to approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina. During 2001 and each of the previous four years, the operating revenues associated with wastewater services have been less than 3% of our consolidated operating revenues.

In March 1999, we completed a merger with CWC. Shares of our common stock were exchanged for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary. The merger was accounted for under the pooling-of-interests method of accounting. Accordingly, this report includes the accounts and results of CWC as if the merger had been completed as of the beginning of the earliest period presented.

In January 2002, Philadelphia Suburban Water Company and various of our other Pennsylvania operating subsidiaries were merged together into Pennsylvania Suburban Water Company. The purpose of the merger was to achieve certain legal, financing and administrative efficiencies and benefits. For operational purposes, these entities will continue to do business under their former names. For discussion purposes, all references to PSW relate to Pennsylvania Suburban Water Company or its predecessor companies.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Following are our selected five-year financial statistics:

Years ended December 31,	2001	2000	1999	1998	1997
Operating revenues (a)	\$307,280	\$274,014	\$256,546	\$250,718	\$235,162
Income from continuing operations	\$60,111	\$52,890	\$36,384	\$45,015	\$35,210
Income from continuing operations before income taxes and non-recurring items (b)	\$99,087	\$82,954	\$73,036	\$68,453	\$57,642
Operating Statistics					
Operating revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operations and maintenance	36.4%	37.1%	38.5%	39.9%	41.1%
Depreciation and amortization	13.1%	12.4%	12.4%	11.8%	11.9%
Taxes other than income taxes	6.8%	8.2%	8.5%	8.7%	9.1%
Interest expense and other (c)	11.9%	12.9%	12.9%	12.8%	13.8%
Allowance for funds used during construction	(0.4)%	(0.9)%	(0.8)%	(0.5)%	(0.4)%
Total costs and expenses	67.8%	69.7%	71.5%	72.7%	75.5%
Income from continuing operations before income taxes and non-recurring items (b)	32.2%	30.3%	28.5%	27.3%	24.5%
Effective tax rates (a)	39.3%	39.2%	42.2%	40.1%	38.9%

(a) Continuing operations only.

(b) Non-recurring items include the 2000 gain of \$2,236 (\$4,041 pre-tax) for the partial recovery of the merger costs related to the 1999 merger with Consumers Water Company, 1999 charges of \$8,596 (\$10,121 pre-tax) for transaction costs and restructuring costs related to the merger with Consumers Water Company, and the 1998 gain of \$3,903 (\$6,680 pre-tax) on the sale of Consumer Water Company's New Hampshire system.

(c) Includes dividends on preferred stock of subsidiary and minority interest.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Following are our selected five-year operating and sales statistics:

Years ended December 31,		2001	2000	1999	1998	1997
Customers	Residential water	526,776	512,442	497,937	478,160	473,309
	Commercial water	29,745	29,317	29,241	27,612	26,369
	Industrial water	1,454	1,446	1,430	1,327	1,386
	Other water	9,947	9,500	9,067	8,277	7,574
	Wastewater	19,615	12,441	11,262	10,583	10,522
	Operating contracts	14,973	14,073	8,525	7,888	7,480
	<b>Total</b>	<b>602,510</b>	<b>579,219</b>	<b>557,462</b>	<b>533,847</b>	<b>526,640</b>
Operating Revenues	Residential water	\$188,303	\$170,597	\$154,881	\$156,523	\$148,323
	Commercial water	53,103	47,109	45,192	44,894	40,439
	Industrial water	16,140	14,943	13,944	13,970	12,818
	Other water	35,682	29,582	31,999	25,672	25,132
	Wastewater	6,960	5,414	5,235	4,755	4,378
	Other	7,092	6,369	5,295	4,904	4,072
	<b>Total</b>	<b>\$307,280</b>	<b>\$274,014</b>	<b>\$256,546</b>	<b>\$250,718</b>	<b>\$235,162</b>

RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 15.5% during the five-year period ended December 31, 2001. During this same period, operating revenues grew at a compound rate of 7.3% and total expenses, exclusive of income taxes, grew at a compound rate of 4.5%.

Operating Revenues

The growth in revenues over the past five years is a result of increases in the customer base and in water rates. The number of customers increased at an annual compound rate of 3.6% in the past five years primarily as a result of acquisitions of local water systems. Acquisitions made during the five-year period ended December 31, 2001 have provided water and wastewater revenues of approximately \$17,427 in 2001, \$10,637 in 2000 and \$5,606 in 1999. Excluding the effect of acquisitions, our customer base increased at a five-year annual compound rate of 0.9%. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$13,100 in 2001, \$15,400 in 2000 and \$1,700 in 1999. In addition to water and wastewater operating revenues, we had other non-regulated revenues that were primarily associated with operating and management contracts, and data processing service fees of \$7,092 in 2001, \$6,369 in 2000 and \$5,295 in 1999.

Economic Regulation - Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. Accordingly, we maintain a rate case

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

management capability to ensure that the tariffs of the utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. In assessing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision,

the changes in the cost of capital, changes in the capital structure and changes in other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions. The rates for some divisions of CWC's Ohio subsidiary can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utility Commission of Ohio. Currently, two of the six regulated divisions in Ohio are operating under such rate ordinances.

In November 2001, Pennsylvania Suburban Water Company filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a \$28,000 or 13.4% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2002. In April 2000, the PAPUC approved a rate settlement reached between Pennsylvania Suburban Water Company and the parties actively litigating the joint rate application filed in October 1999. The settlement was designed to increase annual revenues by \$17,000 or 9.4% above the level in effect at the time of the filing. The rates in effect at the time of the filing included \$7,347 in Distribution System Improvement Charges ("DSIC") ranging from 0.33% to 5%. Consequently, the settlement resulted in a total base rate increase of \$24,347 or 13.5% above the rates in effect before the DSIC was applied. The settlement agreement also provided for the recovery of up to \$5,295 (the merger costs allocable to our Pennsylvania operations) of the \$10,121 (\$8,596 after-tax) in merger costs that were expensed in 1999 in connection with the CWC merger. During 2000, a regulatory asset was established to reflect the amount to be recovered as a result of the rate settlement. This resulted in a recovery of \$1,136 of restructuring costs and \$2,905 of merger transaction costs as reported on the Consolidated Statements of Income and Comprehensive Income.

The CWC operating subsidiaries were allowed annual rate increases of \$4,799 in 2001, \$698 in 2000 and \$390 in 1999 resulting from nine, four and two rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$4,200 in 2001, \$450 in 2000 and \$308 in 1999. The CWC operating subsidiaries currently have four rate requests in process requesting a \$3,858 increase in annual revenues. The applications are currently under review by the respective state regulatory commission.

Distribution System Improvement Charges - The PAPUC permits Pennsylvania water utilities to add a surcharge to their water bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating distribution systems. Prior to the DSIC mechanism being approved in 1996, water utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in base rates is known as regulatory lag. The DSIC mechanism is intended to substantially reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems.

The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. The DSIC is capped at 5% of base rates. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a PAPUC benchmark that is determined quarterly. The DSIC in 2000 was set at 5% until new base rates became effective in April 2000, at which point the DSIC was reset to zero. The DSIC in 2001 ranged from the first quarter amount of 2.2% and increased each successive quarter to 5% in the fourth quarter. The DSIC has been set at 5% in the first quarter of 2002. The DSIC provided revenues of \$6,672 in 2001, \$2,301 in 2000 and \$4,140 in 1999.

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued) (In thousands of dollars, except per share amounts)

In 2001, the Illinois Commerce Commission issued regulations implementing an infrastructure surcharge mechanism known as a Qualifying Infrastructure Plant Surcharge ("QIPS") for use by Illinois water and wastewater utilities. QIPS is similar to DSIC, however, it is established annually and prospectively based on anticipated qualifying capital expenditures, and it includes a broader range of qualifying capital expenditures, including certain wastewater capital expenditures. Our operating subsidiary in Illinois received

approval to add a QIPS to its bills in three of its operating divisions beginning January 1, 2002 at various rates ranging from 1.06% to 2.49%.

Rate Surcharges - In addition to its base rates and DSIC, our Pennsylvania subsidiary has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated in base rates. Operating revenues were reduced by rate credits of \$639 in 2001 and increased by rate surcharges of \$74 in 2000 and \$1,306 in 1999. In the first quarter of 2002, the rate credit has been set at 0.35%.

Sendout - "Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. In general during this period, an extended period of dry weather increases water consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. Conservation efforts, construction codes which require the use of low flow plumbing fixtures as well as mandated water use restrictions in response to drought conditions also affect water consumption.

Our exposure to regional weather conditions is lessened by our geographic diversity, as our customers are located in the following states: 65% in Pennsylvania, 14% in Ohio, 11% in Illinois, 6% in New Jersey, 3% in Maine and 1% in North Carolina. In 2001, our territories in Pennsylvania and New Jersey experienced hot, dry weather. As a result, water consumption in these portions of our service territory increased during this period. In 2000, our service territories in several states, in particular the southeastern Pennsylvania territory, experienced cool and wet weather conditions during the summer months. As a result, water consumption in these portions of our service territory declined during this period.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because nonessential and recreational use of water is highest. At times other than the summer months, warnings and restrictions generally have less of an effect on water consumption. In February 2002, a drought emergency was declared in 24 counties, including seven of the counties we serve in Pennsylvania. A drought emergency imposes a ban on nonessential water use. A drought warning and drought watch had previously been issued in November 2001 for portions of our service territory in Pennsylvania. Water use restrictions were also issued during the summer of 1999, in Pennsylvania and New Jersey, when we experienced abnormally dry weather in our service areas resulting in governmental authorities declaring drought warnings and water use restrictions in the affected areas. As a result of these actions, water consumption and water revenues in these areas declined to levels below those experienced in 1998. When the drought restrictions were lifted in the fall of 1999, water revenues returned to normal levels. Throughout the restriction periods, we generally had sufficient quantities of raw water and maintained adequate storage levels of treated water.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Operations and Maintenance Expenses  
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Operations and maintenance expenses totaled \$111,885 in 2001, \$101,741 in 2000 and \$98,758 in 1999. Most elements of operating costs are subject to the effects of inflation, as well as the effects of changes in the number of customers served, in water consumption and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water



consumption, raw water quality, and to a lesser extent the electric market in some of the states in which we operate. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture. Operations and maintenance expenses increased in 2001 as compared to 2000 by \$10,144 or 10.0% due to additional operating costs associated with acquisitions, increased water production expenses associated with the higher water consumption, and increased wage and benefit costs.

Operations and maintenance expenses increased in 2000 as compared to 1999 by \$2,983 or 3.0% due to additional operating costs associated with acquisitions, higher fuel and electric costs, and increased administrative costs, offset in part by a reduction in corporate costs as part of our cost containment initiatives. Administrative costs increased as a result of increases in insurance costs and an increased allowance for doubtful accounts. The reduction in corporate costs was related to the cost synergies resulting from the Consumers Water Company merger in March 1999.

Depreciation and Amortization Expenses  
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Depreciation expense was \$37,979 in 2001, \$32,271 in 2000 and \$30,612 in 1999, and has increased principally as a result of the significant capital expenditures made to expand and improve the utility facilities, and as a result of acquisitions of water systems, offset in part by the effect in 2000 of a change in depreciation rates.

Amortization expense was \$2,189 in 2001, \$1,829 in 2000 and \$1,291 in 1999. The increase in 2001 and 2000 is due to the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes  
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Taxes other than income taxes decreased by \$1,633 or 7.3% in 2001 as compared to 2000 and increased by \$687 or 3.1% in 2000 as compared to the previous year. The decrease in 2001 is due to a reduction in state and local taxes and a decrease in the Pennsylvania Capital Stock Tax. The increase in 2000 is associated with increased property taxes and an increase in Pennsylvania Public Utility Realty tax due to a higher base on which the tax is calculated.

Restructuring costs (recovery)  
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During 2000, a recovery of restructuring costs of \$1,136 resulted from an April 2000 rate settlement. These costs were included in a 1999 charge of \$3,787 for restructuring costs that included severances of \$2,940 and exit costs associated with the closing of CWC's corporate office.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Interest Expense, net  
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Net interest expense was \$39,859 in 2001, \$40,360 in 2000 and \$33,698 in 1999. Interest expense decreased in 2001 primarily as a result of decreased interest rates on short-term borrowings, offset in part by increased borrowings to fund capital expenditures and the acquisition of other utility systems. Interest expense during 2001 was favorably impacted by a reduction in the weighted cost of long-term debt from 7.2% at December 31, 2000 to 7.0% at December 31, 2001. Interest expense increased in 2000 primarily as a result of higher levels of borrowing in order to finance capital expenditures and the acquisition of other water systems, offset partially by the effects of decreased interest rates on short-term borrowings.

Gains on Sale of Other Assets  
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Gains on sale of other assets totaled \$3,384 in 2001, \$5,076 in 2000 and \$780 in 1999. Gains on sale of land totaled \$3,018 in 2001, \$1,524 in 2000 and \$780 in 1999. Gains on sale of marketable securities totaled \$366 in 2001 and \$3,552 in 2000. There were no marketable securities sold in 1999.

Dividends on Preferred Stock of Subsidiary and Minority Interest  
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Dividends on preferred stock of subsidiary and minority interest were \$0 in 2001, \$103 in 2000 and \$93 in 1999. The change in 2001 is a result of substantially eliminating the minority ownership of three operating subsidiaries during 2001 and the redemption of the preferred stock of subsidiaries.

Allowance for Funds Used During Construction  
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The allowance for funds used during construction ("AFUDC") was \$1,222 in 2001, \$2,688 in 2000 and \$1,995 in 1999 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate. The decrease in 2001 is a result of a reduction in the average balance of CWIP, to which AFUDC is applied, due to the completion of a \$35,000 water treatment plant in the third quarter of 2000 and a decrease in the AFUDC rate. The increase in 2000 is a result of an increased average balance of CWIP, to which AFUDC is applied, due to the increased level of capital expenditures in 2000, particularly due to the construction of a \$35,000 water treatment plant. Construction commenced on this facility in 1997 and was completed in 2000.

Merger transaction costs (recovery)  
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During 2000, a recovery of merger transaction costs of \$2,905 was recognized resulting from the April 2000 rate settlement. These costs were included in a \$6,334 charge that was recorded in 1999 when the CWC merger was completed. The charge represents the fees for investment bankers, attorneys, accountants and other administrative charges.

Income Taxes  
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Our effective income tax rate was 39.3% in 2001, 39.2% in 2000 and 42.2% in 1999. The effective tax rate was higher in 1999 due to the estimated non-deductible portion of the \$6,334 of merger transaction costs recorded in 1999. Exclusive of the merger transaction costs and related tax benefits of \$200, the 1999 effective tax rate would have been 38.6%. The changes in the effective tax rates in 2001 and 2000 are due to differences between tax deductible expenses and book expenses.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Summary  
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Operating income was \$134,340 in 2001, \$116,789 in 2000 and \$100,265 in 1999 and net income was \$60,111 in 2001, \$52,890 in 2000 and \$36,384 in 1999. Our operating results have been affected by several non-operating items in 2000 and 1999. Operating income and net income for 2000 includes the gain for the partial recovery of restructuring costs related to the CWC merger of \$1,136 (\$665 after tax or \$0.01 per share) and for 1999 includes the charge for restructuring costs related to the CWC merger of \$3,787 (\$2,462 after tax or \$0.04 per share). Net income for 2000 includes the gain for the partial recovery of merger transaction costs related to the CWC merger of \$2,905 (\$1,571 after tax or \$0.02 per share) and for 1999 includes the charge for \$6,334 (\$6,134 after tax or \$0.09 per share) of merger transaction costs associated with the CWC merger. Diluted net income per share was \$0.87 in 2001, \$0.81 in 2000 and \$0.56 in 1999. Diluted income per share from operations, exclusive of the

aforementioned non-recurring items, was \$0.87 in 2001, \$0.77 in 2000 and \$0.70 in 1999. The changes in the per share income in 2001 and 2000 over the previous years were due to the aforementioned changes in income and impacted by a 5.1% and 1.4% increase in the average number of common shares outstanding during 2001 and 2000, respectively.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

#### Fourth Quarter Results

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Net income available to common stock was \$12,209 in the fourth quarter of 2001 and \$12,434 in the same period of 2000. The change in net income is due to a \$5,932 increase in operating revenues, and a reduction in interest expense of \$401, offset by \$3,931 of increases in costs and expenses, and \$2,213 of lower gains realized from the sales of other assets in the fourth quarter of 2001 as compared to 2000. The increase in operating revenues was a result of an increase in water rates, additional revenues from acquisitions and non-regulated revenues associated with operating and management contracts and rental income. The decreased interest expense is a result of lower interest rates primarily on short-term borrowings. Operations and maintenance expenses increased primarily due to operating costs associated with acquisitions, higher water production expenses associated with higher water consumption, and increased wage and benefit costs. Depreciation expense increased \$1,303 due to utility plant additions and acquisitions made since the fourth quarter of 2000. The change in the gains realized from the sale of other assets is a result of a pre-tax gain on the sale of marketable securities of \$2,491 being realized in the fourth quarter of 2000 compared to \$211 realized in the fourth quarter of 2001.

#### Effects of Inflation

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As a regulated enterprise, our rates are established to provide recovery of costs and a return on our investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on our operating results are not significant.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

#### Security

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In light of recent concerns regarding security in the wake of the September 11, 2001 terrorist attacks, we have increased security measures at our facilities. These increased security measures were not made in response to any specific threat. We are in contact with federal, state and local authorities and industry trade associations regarding current information on possible threats and security measures for water utility operations. The cost of the increased security measures is expected to be fully recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

#### FINANCIAL CONDITION

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#### Cash Flow and Capital Expenditures

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Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the

five years ended December 31, 2001 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1997	\$ 71,252	\$ 26,752	\$ 67,378
1998	84,362	29,349	87,973
1999	74,103	29,217	96,383
2000	86,972	30,406	129,740
2001	102,165	34,234	124,088
	\$ 418,854	\$ 149,958	\$ 505,562

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants; new water mains and customer service lines; rehabilitation of existing water mains, hydrants and customer service lines; water meters; and the construction of a divisional operations center. During this five-year period, we received \$29,052 of customer advances and contributions in aid of construction to finance new water mains and related facilities. In addition, during this period, we have made sinking fund contributions and retired debt in the amount of \$53,921, retired \$7,747 of preferred stock, and have refunded \$20,620 of customer advances for construction. Despite an annual increase in the common dividends declared and paid on our common stock over the past five years, the total common dividends paid in 1999 declined as compared to 1998 due to the exchange of the Consumers Water Company common stock for our common stock.

During the past five years, we have also expended \$92,063 related to the acquisitions of utility systems, primarily water utilities and some wastewater utilities, including the issuance of 976,148 shares of common stock. These acquisitions were accounted for as purchases. In March 1999, we completed a merger with Consumers Water Company. On the date of the merger, we issued 20,334,398 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became our wholly-owned subsidiary. Our common shares issued in the CWC merger have been restated for the effect of the 2001 5-for-4 common

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
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stock split in the form of a 25% stock distribution. The CWC merger has been accounted for as a pooling-of-interests. In 1998, CWC's New Hampshire operations were sold under the New Hampshire condemnation statute for \$33,728, net of certain closing costs, which was used to pay down long-term debt.

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$228,752 of First Mortgage Bonds and obtained other short-term borrowings during the past five years. In September 2000, we sold 2,066,406 shares of common stock in a public offering for net proceeds of \$29,689. The proceeds of this offering were used to make an equity contribution to PSW. In 1998, we sold 1,953,125 shares of common stock in a public offering for net proceeds of \$25,840. The proceeds of this offering were used to make a \$19,000 equity contribution to PSW and to repay short-term debt. At December 31, 2001, we had short-term lines of credit and other credit facilities of \$195,500, of which \$85,832 was available. Our short-term lines of credit and other credit facilities are either payable on demand or have a 364-day term.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that provides a convenient and economical way to purchase shares of Philadelphia Suburban Corporation. Under the direct stock purchase portion of the Plan, shares are sold throughout the year and the shares are obtained by our transfer agent in the open market. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 2001 dividend payment, holders of 17.5% of the common shares outstanding participated in the dividend reinvestment

portion of the Plan. During the past five years, we have sold 2,246,563 original issue shares of common stock for net proceeds of \$28,028 through the dividend reinvestment portion of the Plan and the proceeds were used to invest in our operating subsidiaries, to relieve our operating subsidiaries of the need to pay a dividend to us, to repay short-term debt, and for general corporate purposes.

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. There were no shares repurchased in 2001 in the open market or through privately negotiated transactions. We purchased 288,750 shares in 2000 and 127,188 shares in 1999 at a net cost of \$3,500 in 2000 and \$1,771 in 1999. For comparative purposes the number of shares purchased is presented as if they were adjusted for the effect of the 2001 5-for-4 common stock split in the form of a 25% stock distribution. As of December 31, 2001, 328,967 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

As of December 31, 2001, our contractual cash obligations are as follows:

	Payments Due By Period						
	2002	2003	2004	2005	2006	Thereafter	Total
Long-term debt	\$ 14,935	\$ 34,945	\$ 39,972	\$ 40,961	\$ 17,130	\$ 383,512	\$ 531,455
Operating leases	1,901	1,655	1,140	795	651	15,907	22,049
Unconditional purchase obligations	7,205	8,098	8,098	6,919	6,811	36,947	74,078
<b>Total</b>	<b>\$ 24,041</b>	<b>\$ 44,698</b>	<b>\$ 49,210</b>	<b>\$ 48,675</b>	<b>\$ 24,592</b>	<b>\$ 436,366</b>	<b>\$ 627,582</b>

The amounts reported as long-term debt in the above table represent sinking fund obligations and debt maturities that are due in the periods noted. We lease motor vehicles, buildings, land and other equipment under operating leases that are noncancelable. The unconditional purchase obligations represent our commitment to purchase minimum quantities of water as stipulated in agreements with municipal authorities. We use purchased water to

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

supplement our water supply, particularly during periods of peak customer demand. In addition to these obligations, we make refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these refund amounts are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable.

Our planned 2002 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$120,021 of which \$38,959 is for DSIC-qualified projects in Pennsylvania and QIPS-qualified projects in Illinois. We have increased our capital spending for infrastructure rehabilitation in response to the DSIC and QIPS and should these infrastructure surcharge mechanisms be discontinued for any reason, which is not anticipated, we would likely reduce our capital program significantly. Our 2002 capital program, along with \$14,935 of sinking fund obligations and debt maturities, and \$9,106 of other contractual cash obligations, is expected to be financed through internally-generated funds, our revolving credit facilities, our equity investments and the issuance of new long-term debt.

Future utility construction in the period 2003 through 2006, including

recurring programs, such as the ongoing replacement of water meters, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$500,000. We anticipate that less than one-half of these expenditures will require external financing including the additional issuance of Common Stock through our dividend reinvestment plan and possible future public equity offerings. We expect to refinance \$133,008 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

We continue to hold acquisition discussions with several water systems. Acquisitions are expected to be financed through the issuance of equity or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings.

Our primary source of liquidity is cash flows from operations, borrowings under various short-term lines of credit and other credit facilities, and advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief and water consumption. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we refinance our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings to enable them to secure the capital they will need and to maintain satisfactory debt coverage ratios.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
 MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
 (In thousands of dollars, except per share amounts)

Market Risk  
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We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2001, the debt maturities by period and the weighted average interest rate for fixed-rate, long-term debt are as follows:

	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
Long-term debt (fixed rate)	\$ 14,935	\$ 34,945	\$ 39,972	\$ 40,961	\$ 17,130	\$ 383,512	\$ 531,455	\$ 562,740
Average interest rate	6.54%	6.75%	6.36%	7.22%	7.20%	7.02%	6.96%	

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2001, our carrying value of marketable equity securities was \$6,425, which reflects the market value of such securities. The market risks that we are exposed to are consistent with the risks that we were exposed to in the prior year.

Capitalization

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The following table summarizes our capitalization during the past five years:

December 31,	2001	2000	1999	1998	1997
Long-term debt*	52.9%	52.4%	53.8%	51.9%	56.9%
Preferred stock*	0.1%	0.2%	0.2%	0.4%	1.0%
Common stockholders' equity	47.0%	47.4%	46.0%	47.7%	42.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

\*Includes current portion.

The changes in the capitalization ratios primarily result from the issuance of common stock over the past five years and the issuance of debt to finance our acquisitions and capital program. It is our goal to maintain an equity ratio adequate to support PSW's current Standard and Poors corporate credit rating of "A+" and its senior secured debt rating of "AA-".

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

Dividends on Common Stock

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We have paid common dividends consecutively for 57 years. In 2001, our Board of Directors authorized an increase of 6.9% in the dividend rate over the amount we previously paid. As a result of this authorization, beginning with the dividend payment in December 2001, the annual dividend rate increased to \$0.53 per share. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the 1999 CWC pooling, our common dividends paid have averaged 65.3% of income from continuing operations.

CRITICAL ACCOUNTING POLICIES

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Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgements of matters of uncertainty. Changes in the estimates or other judgements included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation", the review for impairment of our long-lived assets which consist primarily of Utility Plant in Service and regulatory assets, and our accounting for pensions and other postretirement benefits.

Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgement and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates are determined.

SFAS No. 71 stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when

it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

In accordance with the requirements of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", we review for impairment of our long-lived assets, including Utility Plant in Service. We also review regulatory assets for the continued application of SFAS No. 71. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. In accordance with SFAS No. 71, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)  
(In thousands of dollars, except per share amounts)

We have defined benefit plans that cover our full-time employees and we offer certain postretirement benefits other than pensions to our employees retiring with a minimum level of service. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. While our actuarial consultants provide guidance in establishing the assumptions, the assumptions that we use may differ materially from actual results due to changes in actual circumstances, conditions or experience. These differences will impact the amount of pension and other postretirement benefit expense that we recognize. We expect future changes in the amount of expense recognized will be properly included in the rate-making process.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS  
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In June 1998, the Financial Accounting Standards Board ("FASB") issued 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." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and 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 adoption of these statements on January 1, 2001 did not have a material impact on our results of operations or financial condition. As of December 31, 2001, we had no derivative instruments or hedging activities.

In June 2001, the FASB approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. We adopted SFAS No. 142 on January 1, 2002 as required, and this statement applies to all goodwill and other intangible assets recorded on our balance sheet at that date, regardless of when those assets were originally recorded. We adopted SFAS No. 141 on July 1, 2001 and it did not have a material impact on our results of operations or financial position.

In July 2001, the FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over



time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. We intend to adopt this statement as required in 2003. We are currently evaluating the provisions of this statement and have not yet determined the effect of adoption on our results of operations or financial position.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We adopted SFAS No. 144 on January 1, 2002 as required and it did not have a material impact on our results of operations or financial position.

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## PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

### Report of Management

The consolidated financial statements and related information for the years ended December 31, 2001, 2000 and 1999 were prepared by management in accordance with accounting principles generally accepted in the United States of America and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility and dissemination of policies and procedures.

The Company's independent accountants, PricewaterhouseCoopers LLP, provide an independent review of management's reporting of results of operations and financial condition. PricewaterhouseCoopers has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is comprised of three outside Directors who meet periodically with management, our internal audit director and the independent auditors. The Audit Committee held two meetings in 2001.

/s/ Nicholas DeBenedictis

/s/ David P. Smeltzer

Nicholas DeBenedictis  
Chairman &  
President

David P. Smeltzer  
Senior Vice President - Finance

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Report of Independent Accountants

To the Board of Directors and Stockholders of  
Philadelphia Suburban Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization and of cash flow present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of the Company as of December 31, 1999 and for the year then ended were audited by other independent accountants whose report dated January 31, 2000 expressed an unqualified opinion on those statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Philadelphia, PA  
February 1, 2002

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(In thousands, except per share amounts)  
Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Operating revenues	\$307,280	\$274,014	\$256,546
Costs and expenses:			
Operations and maintenance	111,885	101,741	98,758
Depreciation	37,979	32,271	30,612
Amortization	2,189	1,829	1,291
Taxes other than income taxes	20,887	22,520	21,833
Restructuring costs (recovery)	-	(1,136)	3,787
	-----	-----	-----
	172,940	157,225	156,281
Operating income	134,340	116,789	100,265
Other expense (income):			
Interest expense, net	39,859	40,360	33,698
Allowance for funds used during construction	(1,222)	(2,688)	(1,995)
Gain on sale of other assets	(3,384)	(5,076)	(780)
Merger transaction costs (recovery)	-	(2,905)	6,334
Dividends on preferred stock of subsidiary and minority interest	-	103	93
	-----	-----	-----
Income before income taxes	99,087	86,995	62,915
Provision for income taxes	38,976	34,105	26,531
	-----	-----	-----
Net income	60,111	52,890	36,384
Dividends on preferred stock	106	106	109

Net income available to common stock	\$ 60,005	\$ 52,784	\$ 36,275
Net income	\$ 60,111	\$ 52,890	\$ 36,384
Other comprehensive income (loss), net of tax:			
Unrealized gains on securities	39	908	2,020
Reclassification adjustment for gains reported in net income	(239)	(2,002)	-
	(200)	(1,094)	2,020
Comprehensive income	\$ 59,911	\$ 51,796	\$ 38,404
Net income per common share:			
Basic	\$ 0.88	\$ 0.82	\$ 0.57
Diluted	\$ 0.87	\$ 0.81	\$ 0.56
Average common shares outstanding during the period:			
Basic	67,873	64,759	63,850
Diluted	68,755	65,414	64,539

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
December 31, 2001 and 2000

	2001	2000
Assets		
Property, plant and equipment, at cost	\$ 1,677,061	\$ 1,536,162
Less accumulated depreciation	308,946	284,735
Net property, plant and equipment	1,368,115	1,251,427
Current assets:		
Cash and cash equivalents	1,010	4,087
Accounts receivable and unbilled revenues, net	56,331	50,242
Inventory, materials and supplies	4,446	4,352
Prepayments and other current assets	8,085	7,054
Total current assets	69,872	65,735
Regulatory assets	79,669	67,470
Deferred charges and other assets, net	22,915	25,129
Funds restricted for construction activity	19,768	3,962
	\$ 1,560,339	\$ 1,413,723
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,116	\$ 1,760
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 69,300,346 and 67,939,281 in 2001 and 2000	34,650	27,260
Capital in excess of par value	304,039	291,013
Retained earnings	149,682	123,911
Minority interest	787	2,823
Treasury stock, at cost, 913,877 and 844,376 shares in 2001 and 2000	(17,167)	(15,346)
Accumulated other comprehensive income	726	926
Total stockholders' equity	473,833	432,347
Long-term debt, excluding current portion	516,520	468,769
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	14,935	3,943
Loans payable	109,668	100,994
Accounts payable	27,667	20,635
Accrued interest	10,199	10,199
Accrued taxes	22,865	15,815
Other accrued liabilities	17,301	21,310
Total current liabilities	202,635	172,896
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	167,577	151,718
Customers' advances for construction	59,886	58,718

Other	9,204	9,109
Total deferred credits and other liabilities	236,667	219,545
Contributions in aid of construction	130,684	120,166
	\$ 1,560,339	\$ 1,413,723

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)  
December 31, 2001 and 2000

	2001	2000
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,116	\$ 1,760
Common stock, \$.50 par value	34,650	27,260
Capital in excess of par value	304,039	291,013
Retained earnings	149,682	123,911
Minority interest	787	2,823
Treasury stock, at cost	(17,167)	(15,346)
Accumulated other comprehensive income	726	926
Total stockholders' equity	473,833	432,347
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	8,325	4,368
2.50% to 4.99%	9,023	6,712
5.00% to 5.49%	50,545	6,667
5.50% to 5.99%	30,660	31,060
6.00% to 6.49%	160,525	145,570
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	60,000	62,007
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,595	16,621
8.50% to 8.99%	9,000	10,460
9.00% to 9.49%	53,535	53,615
9.50% to 9.99%	46,031	49,831
10.00% to 10.50%	6,000	6,167
Total First Mortgage Bonds	529,439	471,278
Note payable, 6.05%, due 2006	644	-
Installment note payable, 9%, due in equal annual payments through 2013	1,372	1,434
Current portion of long-term debt	531,455	472,712
Long-term debt, excluding current portion	14,935	3,943
Total capitalization	\$990,353	\$901,116

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED CASH FLOW STATEMENTS  
(In thousands of dollars)  
Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 60,111	\$ 52,890	\$ 36,384
Adjustments to reconcile net income to net cash			

flows from operating activities:			
Depreciation and amortization	40,168	34,100	31,903
Deferred income taxes	14,935	10,885	6,342
Gain on sale of other assets	(3,384)	(5,076)	(780)
Net increase in receivables, inventory and prepayments	(5,295)	(5,531)	(3,073)
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	7,045	4,247	444
Payment of Competitive Transition Charge	(11,465)	-	-
Other	50	(4,543)	2,380
Net cash flows from discontinued operations	-	-	503
Net cash flows from operating activities	102,165	86,972	74,103
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$1,222, \$2,688 and \$1,995	(124,088)	(129,740)	(96,383)
Acquisitions of water and wastewater systems	(9,517)	(3,546)	(39,164)
Net increase in funds restricted for construction activity	(15,806)	(3,962)	-
Net proceeds from the sale (purchases) of other assets	5,211	5,896	(4,789)
Other	(173)	(1,711)	(280)
Net cash flows used in investing activities	(144,373)	(133,063)	(140,616)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	5,175	7,603	5,345
Repayments of customers' advances	(4,652)	(4,642)	(4,077)
Net proceeds (repayments) of short-term debt	8,385	(14,075)	39,519
Proceeds from long-term debt	64,024	67,791	54,412
Repayments of long-term debt	(8,498)	(13,289)	(6,733)
Redemption of preferred stock of subsidiary	(1,349)	-	-
Redemption of preferred stock	(644)	-	(1,460)
Proceeds from issuing common stock	13,522	37,190	7,061
Repurchase of common stock	(2,493)	(4,383)	(1,773)
Dividends paid on preferred stock	(106)	(106)	(117)
Dividends paid on common stock	(34,234)	(30,406)	(29,217)
Other	1	(163)	(36)
Net cash flows from financing activities	39,131	45,520	62,924
Net decrease in cash and cash equivalents	(3,077)	(571)	(3,589)
Cash and cash equivalents at beginning of year	4,087	4,658	8,247
Cash and cash equivalents at end of year	\$ 1,010	\$ 4,087	\$ 4,658
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 38,637	\$ 36,507	\$ 31,036
Income taxes	\$ 19,388	\$ 23,008	\$ 20,313

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Merger with Consumers Water Company, Acquisitions and Water Sale Agreements and Employee Stock and Incentive Plans footnotes for description of non-cash activities.

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
(In thousands of dollars, except per share amounts)

Summary of Significant Accounting Policies

Basis of Presentation - On March 10, 1999, Philadelphia Suburban Corporation (the "Company" or "PSC") completed a merger (the "Merger") with Consumers Water Company ("CWC"). On the date of the Merger, the Company issued 20,334,398 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary of the Company. The Company's common shares issued and exchanged for CWC shares have been restated for the effect of the 2001 5-for-4 common stock split effected in the form of a stock distribution. The Merger has been accounted for as a pooling-of-interests under Accounting Principles Board Opinion No. 16. Accordingly, the Company's consolidated financial statements and footnotes presented in this report include the accounts and results of CWC as if the Merger had been completed as of the beginning of the earliest period presented.

Nature of Operations - The business of Philadelphia Suburban Corporation is conducted primarily through its wholly-owned subsidiary Pennsylvania Suburban Water Company ("PSW") and the four operating companies of CWC (collectively referred to as "operating companies"). The operating companies of PSC are regulated public utilities which supply water and provide wastewater service to 602,510 customers in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. The customers of our operating companies are residential, commercial and industrial in nature. PSW, our largest subsidiary, is a regulated public utility which supplies water to approximately 336,700 customers, principally in

the suburban areas north and west of the City of Philadelphia and in ten other counties in western, north central and northeastern Pennsylvania. In January 2002, Philadelphia Suburban Water Company and various other wholly-owned Pennsylvania operating subsidiaries were merged together into Pennsylvania Suburban Water Company. For operational purposes, these entities will continue to do business under their former names. For discussion purposes, all references to PSW relate to Pennsylvania Suburban Water Company or its predecessor companies. CWC owns 100% of the voting stock of three water companies and at least 99% of the voting stock of one water company. In addition, the Company provides water and wastewater service to approximately 15,000 customers through operating and maintenance contracts in Pennsylvania, Illinois, New Jersey and Maine.

Regulation - The operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Regulated public utilities follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by state regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated where appropriate.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-utility revenues are recognized when services are performed.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost,

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2001, utility plant includes a net credit acquisition adjustment of \$9,043, which is being amortized over 20 to 40 years. Consistent with the Company's rate settlements, \$545 was amortized during 2001, \$541 was amortized during 2000 and \$558 was amortized during 1999.

Utility expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", the long-lived

assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, have been reviewed for impairment. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds was \$334 in 2000 and \$57 in 1999. There was no AFUDC related to equity funds in 2001.

Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized by the straight-line method over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery in accordance with SFAS No. 71.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

basis of the assets and liabilities and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse the Company for its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of \$10,196, \$6,060 and \$10,069 in 2001, 2000 and 1999.

Contributions in Aid of Construction - Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is determined using the first-in, first-out method and the average cost method.

Stock-Based Compensation - The Company adopted SFAS No. 123, "Accounting for

Stock-Based Compensation", electing the provision of the statement allowing it to continue its practice of not recognizing compensation expense related to granting of stock options to the extent that the option price of the underlying stock was equal to, or greater than, the market price on the date of option grant. Disclosure of the impact on the results of operations, had the Company elected to recognize compensation expense, is provided in the Employee Stock and Incentive Plans footnote as required by the Statement.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year's presentation.

Recent Accounting Pronouncements - In June 1998, the Financial Accounting Standards Board ("FASB") issued 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." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and 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 adoption of these statements on January 1, 2001 did not have a material impact on the Company's results of operations or financial condition. As of December 31, 2001, the Company had no derivative instruments or hedging activities.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

In June 2001, the FASB approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. The Company adopted SFAS No. 142 on January 1, 2002 as required, and this statement applies to all goodwill and other intangible assets recorded on our balance sheet at that date, regardless of when those assets were originally recorded. The adoption of SFAS No. 141 on July 1, 2001 did not have a material impact on the Company's results of operations or financial position.

In July 2001, the FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The Company intends to adopt this statement as required in 2003. The Company is currently evaluating the provisions of this statement and has not yet determined the effect of adoption on its results of operations or financial position.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of SFAS No. 144 on January 1, 2002 did not have a material impact on the Company's results of operations or financial



position.

Merger with Consumers Water Company  
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On March 10, 1999, the Company completed a merger ("the Merger") with CWC. Pursuant to the merger agreement, the Company issued 20,334,398 shares of Common Stock in exchange for all of the outstanding stock of CWC. CWC common shareholders received 2.2 shares of the Company's Common Stock for each CWC common share and CWC preferred shareholders received 8.8 shares of the Company's Common Stock for each CWC preferred share. The Company's common shares issued and exchanged for CWC shares have been restated for the effect of the 2001 5-for-4 common stock split effected in the form of a 25% stock distribution. As a result of the Merger, CWC became a wholly-owned subsidiary of the Company. CWC's water companies serve approximately 245,000 customers in service territories covering parts of five states in which we operate.

During 1999, the Company recorded a charge of \$6,334 (\$6,134, after tax benefits of \$200) for merger transaction costs consisting primarily of fees for investment bankers, attorneys, accountants and other administrative charges. In addition, the Company recorded a restructuring reserve of \$3,787 (\$2,462, after tax benefits of \$1,325) in 1999 that includes severances of \$2,940 and exit costs associated with the closing of CWC's corporate office. Since the restructuring reserve was established, cash payments have substantially eliminated this reserve balance during the first half of 2000. In connection with a rate settlement received in 2000, recovery of a portion of the merger costs has been granted and a regulatory asset was established to reflect this recovery. As a result, a gain on recovery of merger costs of \$2,236 (\$4,041 pre-tax) was recognized in 2000. The merger transaction costs and related recovery have been reported in Other expenses and the restructuring costs and related recovery have been reported as Costs and expenses in the Consolidated Statements of Income and Comprehensive Income.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Acquisitions and Water Sale Agreements  
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During 2001, the Company completed 20 acquisitions or other growth ventures in the various states in which the Company operates. The total purchase price of \$14,878 for the systems acquired in 2001 consisted of \$9,517 in cash and the issuance of 331,710 shares of the Company's common stock. The increase in annual revenues resulting from the acquired systems approximate \$4,699 (unaudited) and operating revenues included in the consolidated financial statements during the period owned by the Company was \$3,432.

During 2000, the Company completed 18 acquisitions or other growth ventures, including the Company's entry into a sixth state, North Carolina. The total purchase price of \$11,840 for the systems acquired in 2000 consisted of \$3,546 in cash and the issuance of 578,813 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2000 were \$2,623 in 2001 and \$394 in 2000.

During 1999, exclusive of the Merger, the Company completed 16 acquisitions or other growth ventures in the various states where the Company operates. The total purchase price for the systems acquired in 1999 was \$39,164 in cash. Operating revenues included in the consolidated financial statements related to the systems acquired in 1999 were \$5,101 in 2001, \$4,808 in 2000 and \$559 in 1999.

Property, Plant and Equipment  
-----

December 31,	
2001	2000
-----	-----
-----	-----

Utility plant and equipment	\$ 1,622,788	\$ 1,513,480
Utility construction work in progress	51,531	19,820
Non-utility plant and equipment	2,742	2,862
	-----	-----
Total property, plant and equipment	\$ 1,677,061	\$ 1,536,162
	=====	=====

Depreciation is computed based on estimated useful lives of 2 to 110 years for utility plant and 3 to 10 years for both utility transportation and mechanical equipment and all non-utility plant, office equipment and laboratory equipment.

Accounts Receivable

	December 31,	
	2001	2000
	-----	-----
Billed utility revenue	\$ 33,476	\$ 30,846
Unbilled utility revenue	23,493	20,645
Other	1,844	658
	-----	-----
	58,813	52,149
Less allowance for doubtful accounts	2,482	1,907
	-----	-----
Net accounts receivable	\$ 56,331	\$ 50,242
	=====	=====

The Company's customers are located in the following states: 65% in Pennsylvania, 14% in Ohio, 11% in Illinois, 6% in New Jersey, 3% in Maine and 1% in North Carolina. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2001, 2000 or 1999.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Regulatory Assets

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The regulatory assets represent costs that are excluded from the Company's rate base but are expected to be fully recovered in future rates. The components of this asset are as follows:

	December 31,	
	2001	2000
	-----	-----
Income taxes	\$ 61,080	\$ 58,650
Competitive Transition Charge payment	10,319	-
Postretirement benefits	1,374	1,685
Merger costs	3,759	4,308
Water tank painting	2,088	1,657
Rate case filing expenses and other	1,049	1,170
	-----	-----
	\$ 79,669	\$ 67,470
	=====	=====

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. The regulatory asset associated with the Competitive Transition Charge payment represents the full pay off in 2001, net of amortization, of the allocable share of a Competitive Transition Charge ("CTC") as negotiated by PSW from its electric distribution company, PECO Energy Company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution

utilities to recover their stranded costs from its customers in the form of a CTC. The \$11,465 CTC payment is expected to be recovered in future water rates over 10 years. Postretirement benefits include pension and other postretirement benefits. The pension costs are deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates. The regulatory asset related to the recovery of merger costs represents the portion of the CWC merger costs that will be recovered in rates as a result of a rate settlement in 2000 and is being amortized over the recovery period. Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to three years.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Income Taxes  
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The provision for income taxes consists of:

	Years Ended December 31,		
	2001	2000	1999
Current:			
Federal	\$ 18,935	\$ 19,888	\$ 15,233
State	5,106	4,900	3,695
	24,041	24,788	18,928
Deferred:			
Federal	13,048	8,371	6,862
State	1,887	946	741
	14,935	9,317	7,603
Total tax expense	\$ 38,976	\$ 34,105	\$ 26,531

The statutory Federal tax rate is 35% and the state corporate net income tax rates range from 7.18% to 9.99% for all years presented. The Company's Federal income tax returns for all years through 1997 have been closed.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense are as follows:

	Years Ended December 31,		
	2001	2000	1999
Computed Federal tax expense at statutory rate	\$ 34,680	\$ 30,448	\$ 22,020

Increase in tax expense for depreciation expense to be recovered in future rates	452	353	387
Merger transaction costs	-	120	2,017
Charitable contribution	-	(83)	(479)
Gain on sale of land	-	-	83
Amortization of deferred investment tax credits	(276)	(287)	(279)
Prior year rate reductions	(322)	(311)	(313)
State income taxes, net of federal tax benefit	4,545	3,799	2,883
Other, net	(103)	66	212
	-----	-----	-----
Actual income tax expense	\$ 38,976	\$ 34,105	\$ 26,531
	=====	=====	=====

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2001	2000
	-----	-----
Deferred tax assets:		
Customers' advances for construction	\$ 18,060	\$ 19,120
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	1,689	5,064
Other	290	-
	-----	-----
Total gross deferred tax assets	20,039	24,184
	-----	-----
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	156,332	143,615
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	23,626	23,344
Deferred investment tax credit	7,219	7,498
Unrealized gain on marketable securities	439	547
Other	-	898
	-----	-----
Total gross deferred tax liabilities	187,616	175,902
	-----	-----
Net deferred tax liability	\$167,577	\$151,718
	=====	=====

Commitments  
-----

The Company maintains agreements with municipal authorities for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases are expected to approximate \$7,426 through 2006. The Company purchased approximately \$5,807, \$5,592 and \$3,172 of water under these agreements during the years ended December 31, 2001, 2000 and 1999, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. During the next five years, \$4,271 of future minimum lease payments are due: \$1,526 in 2002, \$1,281 in 2003, \$766 in 2004, \$421 in 2005 and \$277 in 2006. PSW leases parcels of land on which its

Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The two operating leases are noncancelable, expire in 2045 and 2052 and contain certain renewal provisions. The leases are subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, \$374 of lease payments for land, subject to the aforesaid adjustment, are due.

Rent expense was \$2,281, \$1,815 and \$1,894 for the years ended December 31, 2001, 2000 and 1999, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 2001 and 2000. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW and CWC to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's and CWC's stock. As of December 31, 2001, approximately \$203,000 of PSW's and \$49,000 of CWC's retained earnings were free of these restrictions. Certain supplemental indentures also prohibit PSW and CWC from making loans to, or purchasing the stock of, the Company.

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. The future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2002	2003	2004	2005	2006	Thereafter
0.00% to 2.49%	\$ 395	\$ 387	\$ 394	\$ 396	\$ 381	\$ 6,372
2.50% to 4.99%	347	357	362	372	381	7,204
5.00% to 5.49%	60	60	70	70	75	50,210
5.50% to 5.99%	400	10,000	10,000	-	-	10,260
6.00% to 6.49%	10,000	-	15,000	-	644	135,525
6.50% to 6.99%	-	10,400	400	10,400	10,400	23,600
7.00% to 7.49%	2,000	12,000	12,000	28,000	2,000	4,000
7.50% to 7.99%	-	-	-	-	-	23,000
8.00% to 8.49%	31	33	31	-	-	17,500
8.50% to 8.99%	-	-	-	-	-	9,000
9.00% to 9.49%	548	554	561	568	576	52,100
9.50% to 9.99%	1,154	1,154	1,154	1,155	2,673	38,741
10.00% to 10.50%	-	-	-	-	-	6,000
<b>Total</b>	<b>\$ 14,935</b>	<b>\$ 34,945</b>	<b>\$ 39,972</b>	<b>\$40,961</b>	<b>\$17,130</b>	<b>\$ 383,512</b>

PSW has a five-year \$300,000 medium-term note program through December 2004 that provides 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 notes issued under this program are secured by the Thirty-Third Supplement to the trust indenture relating to PSW's First Mortgage Bonds. In October 2001, PSW issued First Mortgage Bonds through the program of \$15,000 6.21% Series due 2011. In January 2000, PSW issued First Mortgage Bonds through the program of \$15,000 7.40% Series due 2005, and in April 2000, \$11,000 7.40% Series due 2005. The proceeds from these issuances were used to fund acquisitions, to reduce the balance of PSW's short-term debt and for PSW's ongoing capital program.

In September 2001, one of CWC's operating subsidiaries issued \$12,000 of tax-exempt bonds due in 2031 at a rate of 5.00%. In November 2001, PSW issued \$30,000 in First Mortgage Bonds 5.35% Series due 2031 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. At various times during 2001, PSW and other operating subsidiaries issued notes payable in aggregate of \$6,725 at a weighted average interest rate of 2.8% due at various times in 2006, 2021, 2022 and 2031. The proceeds from the notes payable issued in 2001 were used to reduce a portion of the balance of short-term debt at each of the respective operating subsidiaries, to redeem \$2,400 of 9.6% First Mortgage Bonds of one of CWC's operating subsidiaries through an early redemption, and redeem PSC preferred stock of

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

\$644. As of December 31, 2001, the Trustees for seven issues held \$19,768 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

In June 2000, PSW issued \$18,360 of tax-exempt bonds due in 2030 at a rate of 6.00%. At various times during 2000, PSW and other operating subsidiaries issued notes payable in aggregate of \$12,583 at various rates of interest ranging from 0% to 5.4% due at various times in 2019, 2020, and 2030. The proceeds from the other issues were used to reduce a portion of the balance of short-term debt at each of the respective operating subsidiaries. In connection with various acquisitions completed during 2000, the Company acquired \$3,102 of long-term debt at various rates of interest ranging from 1% to 10.5% due in various years. During 2001, a substantial portion of this debt has been refinanced with lower-cost debt. The pro forma weighted cost of long-term debt at December 31, 2001 and 2000 was 7.0% and 7.2%, respectively.

PSW has a \$70,000 364-day revolving credit facility with four banks and CWC has a \$20,000 364-day bank revolving credit facility. Funds borrowed under these agreements are classified as loans payable and are used to provide working capital. The PSW facility replaced an expiring facility of \$50,000 and has been increased in order to consolidate borrowings of the Pennsylvania operating subsidiaries and reduce the short-term lines of credit. As of December 31, 2001 and 2000, funds borrowed under the PSW revolving credit agreements were \$64,882 and \$46,270, respectively, and \$13,500 and \$12,000 were borrowed under the CWC revolving credit agreement, respectively. Interest under these facilities is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. These agreements restrict the total amount of short-term borrowings of PSW and CWC. A commitment fee ranging from 1/4 to 1/10 of 1% is charged on the unused portion of the revolving credit agreements. The average cost of borrowing under these facilities was 4.5% and 6.8%, and the average borrowing was \$60,417 and \$56,541, during 2001 and 2000, respectively. The maximum amount outstanding at the end of any one month was \$78,382 in 2001 and \$64,000 in 2000.

At December 31, 2001 and 2000, the Company had combined short-term lines of credit of \$105,500 and \$120,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was \$61,232 and \$49,901 during 2001 and 2000, respectively. The maximum amount outstanding at the end of any one month was \$76,858 in 2001 and \$58,878 in 2000. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2001 and 2000 was 5.2% and 7.3%, respectively.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Preferred Stock of Subsidiaries  
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The Company's subsidiaries have preferred stock (\$100 par value) authorized as of December 31, 2001:

	Cumulative Dividend Rate	Current Call Price Per Share	Shares Authorized	Shares Outstanding
Consumers Illinois Water Company	5.50%	107	5,000	3,575
Consumers Maine Water Company	-	None	4,000	-

During 2001, Consumers Maine Water Company called and retired 2,739 shares of its preferred stock for an aggregate amount of \$288 and Consumers Pennsylvania - Shenango Valley Division called and substantially retired 9,646 shares of preferred stock for an aggregate amount of \$1,061.

Fair Value of Financial Instruments  
-----

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2001	2000
Carrying amount	\$ 531,455	\$472,712
Estimated fair value	562,740	475,330

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of \$59,886 and \$58,718 at December 31, 2001 and 2000, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Stockholders' Equity  
-----

At December 31, 2001, the Company had 1,770,819 shares of Series Preferred Stock with a \$1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated 32,200 shares as Series B Preferred Stock, \$1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. In 1996, the Company issued all of the 6.05% Series B Preferred Stock in connection with an acquisition. The Series B Preferred Stock is recorded on the balance sheet at its liquidation value of \$100 per share. Dividends on the Series B Preferred Stock are cumulative and payable quarterly. PSC may not pay dividends on common stock unless provision has been made for

payment of the preferred dividends. Under the provisions of this issue, the holders may redeem the shares, in whole or in part, at the liquidation value beginning December 1, 1998 and the Company may redeem up to 20% of this issue each year beginning December 1, 2001 and, at the holders' option, this redemption may be made in cash or through the issuance of debt with a five year maturity at an interest rate of 6.05%. As of December 31, 2001, all dividends have been provided for. In January 1999, 14,600 shares of Series B Preferred Stock were redeemed in cash at the liquidation value of \$100 per share. In December 2001, 6,440 shares of Series B Preferred Stock were redeemed at the liquidation value of \$100 per share and the holder chose to receive a five year note for the redemption proceeds of \$644 at an interest rate of 6.05%. In January 2002, an additional 3,000 shares were redeemed at the holders' option in cash at the liquidation value of \$100 per share.

In August 2001, the Company's Board of Director's declared a 5-for-4 common stock split effected in the form of a 25% stock distribution for all common shares outstanding, to shareholders of record on November 16, 2001. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on December 1, 2001. The Company's par value of \$0.50 per share remained unchanged and \$6,829 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

At December 31, 2001, the Company had 100,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding at December 31, 2001, 2000 and 1999 were 68,386,469, 67,094,905 and 64,082,197 respectively. Treasury shares held at December 31, 2001, 2000 and 1999 were 913,877, 844,376, and 615,038, respectively.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

The following table summarizes the activity of common stockholders' equity:

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1998	\$ 20,617	\$ (9,478)	\$244,457	\$ 91,683	\$ -	\$347,279
Net income	-	-	-	36,275	-	36,275
Other comprehensive income, net of income tax of \$1,433	-	-	-	-	2,020	2,020
Dividends	-	-	-	(26,425)	-	(26,425)
Sale of stock	114	354	4,807	-	-	5,275
Repurchase of stock	-	(2,146)	-	-	-	(2,146)
Equity Compensation Plan	2	-	98	-	-	100
Exercise of stock options	81	-	1,873	-	-	1,954
Tax benefit from exercise of employee stock options	-	-	205	-	-	205
Balance at December 31, 1999	20,814	(11,270)	251,440	101,533	2,020	364,537
Net income	-	-	-	52,784	-	52,784
Other comprehensive income, net of income tax of \$489	-	-	-	-	908	908
Reclassification adjustment for gains reported in net income, net of income tax of \$1,375	-	-	-	-	(2,002)	(2,002)
Dividends	-	-	-	(30,406)	-	(30,406)
Stock split	5,319	-	(5,319)	-	-	-
Stock issued for acquisitions	228	-	8,067	-	-	8,295
Sale of stock	803	307	34,318	-	-	35,428
Repurchase of stock	-	(4,383)	-	-	-	(4,383)
Equity Compensation Plan	12	-	545	-	-	557
Exercise of stock options	84	-	1,677	-	-	1,761
Tax benefit from exercise of employee stock options	-	-	285	-	-	285
Balance at December 31, 2000	27,260	(15,346)	291,013	123,911	926	427,764
Net income	-	-	-	60,005	-	60,005
Other comprehensive income, net of income tax of \$19	-	-	-	-	39	39



Reclassification adjustment for gains reported in net income, net of income tax of \$127	-	-	-	-	(239)	(239)
Dividends	-	-	-	(34,234)	-	(34,234)
Stock split	6,829	-	(6,829)	-	-	-
Stock issued for acquisitions	133	-	5,228	-	-	5,361
Sale of stock	128	672	5,783	-	-	6,583
Repurchase of stock	-	(2,493)	-	-	-	(2,493)
Equity Compensation Plan	3	-	141	-	-	144
Exercise of stock options	297	-	6,642	-	-	6,939
Tax benefit from exercise of employee stock options	-	-	2,061	-	-	2,061
Balance at December 31, 2001	\$ 34,650	\$(17,167)	\$304,039	\$149,682	\$ 726	\$471,930

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

In September 2000, the Company issued 2,066,406 shares of common stock through a public offering, providing net proceeds of \$29,689 which were used to make an equity contribution to PSW. PSW used the contribution from the Company to reduce the balance of its revolving credit loan.

In December 1999, the Company filed a shelf registration statement with the Securities and Exchange Commission for the offering and sale of up to 2,000,000 shares of common stock and 500,000 shares of preferred stock. During 2001 and 2000, 331,710 and 578,813 shares of common stock totaling \$5,361 and \$8,295, respectively, were issued to acquire water and wastewater systems. The Company expects to offer from time to time, the remainder of these shares for acquisitions. The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other funds.

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income for unrealized gains on securities is reported in the Stockholders' Equity section of the Consolidated Balance Sheets and the related other comprehensive income is reported in the Consolidated Statements of Income and Comprehensive Income.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. During 2001, 2000 and 1999, under the dividend reinvestment portion of the Plan, 303,906, 419,766 and 358,556 original issue shares of common stock were sold providing the Company with proceeds of \$5,980, \$5,482 and \$5,044, respectively.

The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. During 2000 and 1999, 288,750 and 127,188 shares have been purchased at a net cost of \$3,500 and \$1,771, respectively. There were no shares repurchased in 2001 in the open market or through privately negotiated transactions. For comparative purposes the number of shares purchased is presented as if they were adjusted for the effect of the 2001 5-for-4 common stock split in the form of a 25% stock distribution. As of December 31, 2001, 328,967 shares remain available for purchase by the Company.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Net Income per Common Share and Equity per Common Share

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Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per share:

	Years ended December 31,		
	2001	2000	1999
Average common shares outstanding during the period for Basic computation	67,873	64,759	63,850
Dilutive effect of employee stock options	882	655	689
Average common shares outstanding during the period for Diluted computation	68,755	65,414	64,539

Equity per common share was \$6.90 and \$6.38 at December 31, 2001 and 2000, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

#### Shareholder Rights Plan

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The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of \$.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

#### Employee Stock and Incentive Plans

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Under the 1994 Equity Compensation Plan ("1994 Plan"), as amended and restated effective March 3, 1998, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In November 1998, the Shareholders authorized an increase to the number of shares from 1,900,000 shares to 2,900,000 shares of common stock for issuance under the 1994 Plan. The maximum number of shares that may be subject to grants under the 1994 Plan to any one individual in any one year is 100,000. Awards under this plan are made by the Board of Directors or a committee of the Board.

### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from

the date of the grant and expire 10 years from the date of the grant.

The following table summarizes stock option transactions for the two plans:

	As of or For the Years Ended December 31,					
	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	2,263,803	\$10.69	2,005,194	\$10.12	1,771,730	\$ 8.80
Granted	535,679	19.10	560,609	11.75	472,656	13.71
Terminated	(18,183)	12.13	(70,911)	13.17	(11,807)	13.12
Exercised	(733,489)	9.39	(231,089)	7.58	(227,385)	7.15
Outstanding, end of year	2,047,810	\$13.32	2,263,803	\$10.69	2,005,194	\$10.12
Exercisable, end of year	1,015,708	\$10.79	1,295,561	\$ 9.21	1,132,550	\$ 7.71

Options exercised during 2001 ranged in price from \$4.60 per share to \$15.28 per share. At December 31, 2001, 991,937 options under the 1994 Plan were still available for grant. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 2001:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$ 5.78 - 8.99	281,185	3.6	\$ 6.47	281,185	\$ 6.47
\$ 9.00 - 11.99	670,089	7.3	11.13	313,472	10.44
\$12.00 - 14.99	562,083	6.8	13.88	421,051	13.94
\$15.00 - 19.10	534,453	9.2	19.09	-	-
	2,047,810	7.1	\$ 13.32	1,015,708	\$10.79

Under SFAS No. 123, "Accounting for Stock-Based Compensation", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Had the Company determined compensation cost

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income available to common stock and Basic and Diluted net income per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	2001	2000	1999
Net income available to common stock:			
As reported	\$ 60,005	\$ 52,784	\$ 36,275

Proforma	57,013	51,206	35,398
Basic net income per share:			
As reported	\$ 0.88	\$ 0.82	\$ 0.57
Proforma	0.84	0.79	0.55
Diluted net income per share:			
As reported	\$ 0.87	\$ 0.81	\$ 0.56
Proforma	0.83	0.78	0.55

The per share weighted-average fair value at the date of grant for stock options granted during 2001, 2000 and 1999 was \$5.58, \$2.82, and \$3.42 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Expected life (years)	5.2	10	10
Interest rate	5.0%	6.4%	5.4%
Volatility	32.7%	21.1%	20.9%
Dividend yield	2.6%	3.9%	3.2%

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 2001, 2000 and 1999, 7,875, 36,875 and 6,875 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and is amortized ratably over the restriction period.

#### Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans that cover its full-time employees. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow.

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for all eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts.

The Company's pension expense (credit) includes the following components:

	Years Ended December 31,		
	2001	2000	1999
Benefits earned during the year	\$ 2,986	\$ 2,553	\$ 3,232

Interest cost on projected benefit obligation	8,261	7,612	7,214
Expected return on plan assets	(10,891)	(11,281)	(10,304)
Net amortization and deferral	(206)	(1,283)	(105)
Capitalized costs	(49)	(56)	(47)
Rate-regulated adjustment	(553)	1,403	430
Special termination benefits	-	43	716
	-----	-----	-----
Net pension cost (credit)	\$ (452)	\$ (1,009)	\$ 1,136
	=====	=====	=====

The rate-regulated adjustment set forth above is required in order to reflect pension expense (credit) for the Company in accordance with the method used in establishing water rates. During 2000 and 1999, the Company instituted early retirement and restructuring programs. These actions resulted in additional termination benefits of \$43 in 2000 and \$716 in 1999.

The Company's costs for postretirement benefits other than pensions includes the following components:

	Years Ended December 31,		
	2001	2000	1999
Benefits earned during the year	\$ 705	\$ 555	\$ 645
Interest cost	1,427	1,267	1,249
Expected return on plan assets	(947)	(920)	(699)
Net amortization and deferral	567	417	628
Special termination benefits	-	-	209
Amortization of regulatory asset	136	208	208
	-----	-----	-----
Gross PBOP cost	1,888	1,527	2,240
Capitalized costs	(475)	(512)	(464)
	-----	-----	-----
Net PBOP cost	\$1,413	\$1,015	\$1,776
	=====	=====	=====

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 110,214	\$ 98,228	\$ 18,581	\$ 17,292
Service cost	2,986	2,553	705	555
Interest cost	8,261	7,612	1,428	1,267
Special termination benefits	-	43	-	282
Plan amendments	-	-	(1,205)	-
Actuarial loss	3,645	6,963	3,680	-
Benefits paid	(5,439)	(5,185)	(872)	(815)
	-----	-----	-----	-----
Benefit obligation at December 31,	119,667	110,214	22,317	18,581
	-----	-----	-----	-----
Change in plan assets:				
Fair value of plan assets at January 1,	123,715	128,367	11,896	11,097
Actual return on plan assets	(5,001)	479	(688)	(323)
Employer contributions	55	54	1,880	1,937
Benefits paid	(5,439)	(5,185)	(872)	(815)
	-----	-----	-----	-----
Fair value of plan assets at December 31,	113,330	123,715	12,216	11,896
	-----	-----	-----	-----
Funded status of plan:				
Funded status at December 31,	6,337	(13,501)	10,101	6,685
Unrecognized actuarial gain (loss)	(2,051)	18,014	854	6,345

Unrecognized prior service cost	(2,581)	(3,012)	704	761
Rate-regulated adjustment	(516)	37	-	-
Unrecognized net transition obligation	1,645	1,755	(8,838)	(10,846)
	-----	-----	-----	-----
Accrued benefit costs	\$ 2,834	\$ 3,293	\$ 2,821	\$ 2,945
	=====	=====	=====	=====
Weighted-average assumptions				
as of December 31,				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	9.00%	9.00%	6.00-9.00%	6.00-9.00%
Rate of compensation increase	4.50-5.50%	4.50-5.50%	4.50%	4.50%

The accumulated benefit obligation is in excess of plan assets for certain non-qualified plans. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans were \$3,551, \$2,341 and \$0, and \$3,490, \$2,078 and \$0, respectively as of December 31, 2001 and 2000.

The assumed medical inflation rates under the PSC and CWC plans are 12.0%, reducing to 5.0% by 2006. The effect of a 1% increase in the assumed medical inflation rates would be to increase the accumulated postretirement benefit obligation as of December 31, 2001 and the 2001 PBOP costs by \$664 and \$71, respectively. The effect of a 1% decrease in the assumed medical inflation rates would be to decrease the accumulated postretirement benefit obligation as of December 31, 2001 and the 2001 PBOP costs by \$866 and \$154, respectively. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are invested in PSC common stock based on a percentage of an employee's contribution, subject to certain limitations. The Company's matching contribution, recorded as compensation expense, was \$798, \$786 and \$741 for the years ended December 31, 2001, 2000 and 1999, respectively.

Water Rates

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In November 2001, PSW filed an application with the Pennsylvania Public Utility Commission ("PAPUC") for our Pennsylvania subsidiaries requesting a \$28,000 or 13.4% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2002.

On April 27, 2000, the PAPUC approved a rate settlement reached between PSC's Pennsylvania utility subsidiaries, and the parties actively litigating the joint rate application filed in October 1999. The settlement was designed to increase annual revenue by \$17,000 or 9.4% above the level in effect at the time of the filing. The rates in effect at the time of the filing included \$7,347 in Distribution System Improvement Charges ("DSIC") ranging from 0.33% to 5%. Consequently, the settlement resulted in a total base rate increase of \$24,347 or 13.5% above the rates in effect before the DSIC was applied. As a part of the rate settlement, the DSIC was reset to zero. The settlement agreement also provided for the recovery of up to \$5,295 (the merger costs allocable to our Pennsylvania operations) of the \$10,121 (\$8,596 after-tax) in merger costs that were expensed in the first quarter of 1999 in connection with the Merger. As a result, a regulatory asset was established to reflect the amount to be recovered as a result of the rate settlement.

The CWC operating subsidiaries were allowed annual rate increases of \$4,799 in 2001, \$698 in 2000 and \$390 in 1999, represented by nine, four and two rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$4,200, \$450 and \$308 in 2001, 2000 and 1999, respectively.

The DSIC enables water utilities in Pennsylvania to add a surcharge to

customer bills reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective or when PSW's pro forma earnings exceed a PUC benchmark. The maximum DSIC that can be in effect at any time is 5%. The DSIC in 2001 ranged from 2.21% in the first quarter to 5% in the fourth quarter, and has been set at 5% in the first quarter of 2002. The DSIC provided revenues in 2001, 2000 and 1999 of \$6,672, \$2,301 and \$4,140, respectively.

In 2001, the Illinois Commerce Commission issued regulations implementing an infrastructure surcharge known as a Qualifying Infrastructure Plant Surcharge ("QIPS") for use by Illinois water and wastewater utilities. QIPS is similar to DSIC, however, it is established annually and prospectively based on anticipated qualifying capital expenditures, and it includes a broader range of qualifying capital expenditures, including certain wastewater capital expenditures. Our operating subsidiary in Illinois received approval to add a QIPS to its bills in three of its operating divisions beginning January 1, 2002 at various rates ranging from 1.06% to 2.49%.

In addition to its base rates and DSIC, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated in base rates. A rate credit reduced operating revenues in 2001 by \$639, and various surcharge rates provided operating revenues of \$74 in 2000 and \$1,306 in 1999.

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Selected Quarterly Financial Data (Unaudited)		Philadelphia Suburban Corporation and Subsidiaries				
(in thousands of dollars, except per share amounts)		First	Second	Third	Fourth	Year
2001						
Operating revenues		\$70,193	\$77,240	\$84,726	\$75,121	\$307,280
Operations and maintenance expense		26,186	26,462	28,994	30,243	111,885
Net income available to common stock		13,085	15,432	19,279	12,209	60,005
Basic net income per common share		0.19	0.23	0.28	0.18	0.88
Diluted net income per common share		0.19	0.22	0.28	0.18	0.87
Dividend paid per common share		0.124	0.124	0.124	0.13248	0.504
Dividend declared per common share		0.124	0.124	0.25648	-	0.504
Price range of common stock						
- high		19.39	20.40	23.28	24.64	24.64
- low		15.65	16.60	18.66	20.80	15.65
2000						
Operating revenues		\$64,208	\$68,494	\$72,123	\$69,189	\$274,014
Operations and maintenance expense		24,928	24,350	25,037	27,426	101,741
Net income available to common stock		10,246	13,565	16,539	12,434	52,784
Basic net income per common share		0.16	0.21	0.26	0.19	0.82
Diluted net income per common share		0.16	0.21	0.25	0.18	0.81
Dividend paid per common share		0.1152	0.1152	0.1152	0.124	0.4696
Dividend declared per common share		0.1152	0.1152	0.2392	-	0.4696
Price range of common stock						
- high		14.08	15.96	15.56	19.95	19.95
- low		10.56	11.60	12.80	13.56	10.56

All per share data as presented has been adjusted for the 2001 5-for-4 common stock split effected in the form of a 25% stock distribution. High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividends paid in December 2001 of \$0.13248 and December 2000 of \$0.124 were declared in August 2001 and August 2000, respectively.

Net income available to common stock and net income per common share for 2000 includes the partial recovery of the merger costs related to the Merger as follows: \$972 (\$1,059 pre-tax) or \$0.02 per share in the second quarter and \$1,264 (\$2,982 pre-tax) or \$0.02 per share in the third quarter.

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Summary of Selected Financial Data  
(in thousands of dollars, except per share amounts)

Philadelphia Suburban Corporation and Subsidiaries

Years ended December 31,	2001	2000*	1999*	1998*	1997*
<b>PER COMMON SHARE:</b>					
Income from continuing operations (a)					
Basic	\$ 0.88	\$ 0.82	\$ 0.57	\$ 0.71	\$ 0.58
Diluted	0.87	0.81	0.56	0.70	0.58
Net income (a)					
Basic	0.88	0.82	0.57	0.71	0.54
Diluted	0.87	0.81	0.56	0.70	0.53
Cash dividends paid (b)	0.50	0.47	0.45	0.43	0.40
Cash dividends declared (b) (c)	0.50	0.47	0.45	0.32	0.50
Return on average stockholders' equity (a) (d)	13.3%	13.2%	10.1%	13.6%	11.8%
Book value at year end	\$6.90	\$6.38	\$5.69	\$5.46	\$4.93
Market value at year end	22.55	19.60	13.24	18.92	14.13
<b>INCOME STATEMENT HIGHLIGHTS:</b>					
Operating revenues (d)	\$ 307,280	\$ 274,014	\$ 256,546	\$ 250,718	\$ 235,162
Depreciation and amortization (d)	40,168	34,100	31,903	29,464	27,977
Interest expense (d) (e)	38,637	37,775	31,796	30,785	32,317
Income before income taxes (d)	99,087	86,995	62,915	75,133	57,642
Provision for income taxes (d)	38,976	34,105	26,531	30,118	22,432
Income from continuing operations (a)	60,111	52,890	36,384	45,015	35,210
Net income available to common stock (a)	60,005	52,784	36,275	44,820	32,278
<b>BALANCE SHEET HIGHLIGHTS:</b>					
Total assets	\$1,560,339	\$1,413,723	\$1,280,805	\$1,156,733	\$1,083,162
Property, plant and equipment, net	1,368,115	1,251,427	1,135,364	1,016,194	952,626
Stockholders' equity	473,833	432,347	368,901	353,088	306,816
Preferred stock with mandatory redemption (f)	-	-	-	-	4,214
Long-term debt (f)	531,455	472,712	425,946	377,355	407,526
Total debt	641,123	573,706	529,015	440,905	436,756
<b>ADDITIONAL INFORMATION:</b>					
Net cash flows from operating activities	\$ 102,165	\$ 86,972	\$ 74,103	\$ 84,362	\$ 71,252
Capital additions (d) (g)	124,088	129,740	96,383	87,973	67,378
Dividends on common stock	34,234	30,406	29,217	29,349	26,752
Number of customers served	602,510	579,219	557,462	533,847	526,640
Number of shareholders of common stock	20,920	20,978	21,187	20,553	19,902
Common shares outstanding (000)	68,386	67,095	64,082	63,597	61,112
Employees (full-time)	951	943	945	973	979

\*Share and per share data has been restated for the 2001 5-for-4 stock split.

- (a) The 2000 amounts include a net gain of \$2,236 (\$4,041 pre-tax) or \$0.04 per share for the partial recovery of the merger costs related to the Merger. The 1999 amounts include a net charge of \$8,596 (\$10,121 pre-tax) or \$0.13 per share for the Merger transaction costs and related restructuring costs. The 1998 amounts include a net gain of \$3,903 (\$6,680 pre-tax) or \$0.06 per share on the sale of Consumers Water Company's New Hampshire system pursuant to the State's condemnation statute.
- (b) Amount represents PSC's historical dividends per common share.
- (c) The cash dividend of \$0.10, paid in March 1998, was declared in December 1997.
- (d) Continuing operations only.
- (e) Includes dividends on preferred stock of subsidiary and minority interest; net of allowance for funds used during construction.
- (f) Includes current portion.
- (g) Excludes payments for acquired water systems of \$9,517 in 2001, \$3,546 in 2000, \$39,164 in 1999, \$24,498 in 1998, and \$1,226 in 1997.

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PHILADELPHIA SUBURBAN CORPORATION

FINANCIAL HIGHLIGHTS

(In thousands of dollars, except per share amounts)

	2001	2000	% Change
Operating revenues	\$ 307,280	\$ 274,014	12.1
Income from operations, exclusive of nonrecurring item (a)	60,005	50,548	18.7
Net income available to common stock (b)	60,005	52,784	13.7
Diluted income per common share from operations, exclusive of nonrecurring items (a) (c)	0.87	0.77	13.0
Diluted net income per common share (b) (c)	0.87	0.81	7.4
Annual dividend rate per common share (c)	0.53	0.50	6.0
Dividends paid per common share (c)	0.50	0.47	6.4
Common stockholders' equity per share (c)	6.90	6.38	8.2
Stockholders' equity	473,833	432,347	9.6
Total assets	1,560,339	1,413,723	10.4
Capital additions (d)	124,088	129,740	(4.4)
Number of customers served	602,510	579,219	4.0

- (a) Excludes 2000 net gain of \$2,236 (\$0.04 per share) for the partial recovery of the merger costs related to the Consumers Water Company merger.
- (b) Includes nonrecurring items noted in (a) above.
- (c) Restated for 2001 5-for-4 stock split.
- (d) Excludes payments for acquired water systems: \$9,517 in 2001 and \$3,546 in 2000.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Philadelphia Suburban Corporation at December 31, 2001:

Pennsylvania Suburban Water Company (Pa.)  
Suburban Environmental Services, Inc. (Pa.)  
Little Washington Wastewater Company (Pa.)  
Consumers Water Company (Pa.)  
Consumers Ohio Water Company (Ohio)  
Consumers Applegrove Water Company (Ohio)  
Consumers Illinois Water Company (Illinois)  
Consumers New Jersey Water Company (New Jersey)  
Consumers Maine Water Company (Maine)  
Consumers North Carolina Water Company, Inc. (North Carolina)  
Hawley Water Company (Pa)  
Utility & Municipal Services, Inc. (Pa)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772 and 333-42275), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 333-61768, 333-70859, 033-52557, 33-27032, 2-81757, 333-81085) of Philadelphia Suburban Corporation of our report dated February 1, 2002 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania  
March 19, 2002

CONSENT OF INDEPENDENT ACCOUNTANTS

The Board of Directors  
Philadelphia Suburban Corporation:

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Equity Compensation Plan No. 333-70859), (Amended and Restated 2001 Employee Stock Purchase Plan No. 333-61768), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option Plan No. 33-27032), (1982 Stock Option Plan No. 2-81757), (Employees 401(k) Savings Plan and Trust No. 333-81085); on Form S-4 (shelf registration No. 333-93243); and on Form S-3 (Dividend Reinvestment and Direct Stock Purchase Plan Nos. 333-61772 and 333-42275) of Philadelphia Suburban Corporation of our report dated January 31, 2000, relating to the consolidated statements of income and comprehensive income and cash flow of Philadelphia Suburban Corporation and subsidiaries for the year ended December 31, 1999, which report is included in the December 31, 2001 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

/s/ KPMG LLP

Philadelphia, Pennsylvania  
March 19, 2002