

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 2002

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____

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

(Former Name, former address and former fiscal year,
if changed since last report.)

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

Yes No
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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 30, 2002 68,858,761.

Part I - Financial Information
Item 1. Financial Statements

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)

	June 30, 2002	December 31, 2001
	-----	-----
Assets	(Unaudited)	
Property, plant and equipment, at cost	\$ 1,754,001	\$ 1,677,061
Less accumulated depreciation	327,087	308,946
	-----	-----
Net property, plant and equipment	1,426,914	1,368,115
	-----	-----
Current assets:		
Cash and cash equivalents	876	1,010
Accounts receivable and unbilled revenues, net	53,222	56,331
Inventory, materials and supplies	4,819	4,446
Prepayments and other current assets	5,120	8,085
	-----	-----
Total current assets	64,037	69,872
	-----	-----
Regulatory assets	79,458	79,669
Deferred charges and other assets, net	20,023	22,915
Funds restricted for construction activity	30,132	19,768
	-----	-----
	\$ 1,620,564	\$ 1,560,339
	=====	=====
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 816	\$ 1,116
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 69,755,662 and 69,300,346 in 2002 and 2001	34,878	34,650
Capital in excess of par value	311,191	304,039
Retained earnings	158,212	149,682
Minority interest	527	787
Treasury stock, 963,986 and 913,877 shares in 2002 and 2001	(18,356)	(17,167)
Accumulated other comprehensive income	378	726
	-----	-----
Total stockholders' equity	487,646	473,833
	-----	-----
Long-term debt, excluding current portion	573,487	516,520
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	13,849	14,935
Loans payable	97,736	109,668
Accounts payable	15,200	27,667
Accrued interest	8,505	8,302
Accrued taxes	19,833	22,865
Other accrued liabilities	19,553	19,198
	-----	-----
Total current liabilities	174,676	202,635
	-----	-----
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	170,407	167,577
Customers' advances for construction	67,407	59,886
Other	10,960	9,204
	-----	-----
Total deferred credits and other liabilities	248,774	236,667
	-----	-----
Contributions in aid of construction	135,981	130,684
	-----	-----
	\$ 1,620,564	\$ 1,560,339
	=====	=====

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

	Six Months Ended June 30,	
	2002	2001
Operating revenues	\$148,284	\$ 147,433
Costs and expenses:		
Operations and maintenance	56,200	52,648
Depreciation	20,200	18,682
Amortization	1,209	1,145
Taxes other than income taxes	9,935	10,938
	87,544	83,413
Operating income	60,740	64,020
Other expense (income):		
Interest expense, net	19,671	20,166
Allowance for funds used during construction	(932)	(512)
Gain on sale of other assets	(1,758)	(2,909)
Income before income taxes	43,759	47,275
Provision for income taxes	17,039	18,705
Net income	26,720	28,570
Dividends on preferred stock	27	53
Net income available to common stock	\$ 26,693	\$ 28,517
Net income	\$ 26,720	\$ 28,570
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	345	48
Reclassification adjustment for gains reported in net income	(693)	(36)
Comprehensive income	\$ 26,372	\$ 28,582
Net income per common share:		
Basic	\$ 0.39	\$ 0.42
Diluted	\$ 0.38	\$ 0.42
Average common shares outstanding during the period:		
Basic	68,576	67,598
Diluted	69,408	68,403

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

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

(UNAUDITED)

	Three Months Ended June 30,	
	2002	2001
Operating revenues	\$ 76,615	\$ 77,240
Costs and expenses:		
Operations and maintenance	28,915	26,462
Depreciation	10,307	9,729

Amortization	669	623
Taxes other than income taxes	4,621	5,350
	-----	-----
	44,512	42,164
	-----	-----
Operating income	32,103	35,076
Other expense (income):		
Interest expense, net	9,891	9,904
Allowance for funds used during construction	(546)	(264)
Gain on sale of other assets	(1,409)	(118)
	-----	-----
Income before income taxes	24,167	25,554
Provision for income taxes	9,337	10,096
	-----	-----
Net income	14,830	15,458
Dividends on preferred stock	12	26
	-----	-----
Net income available to common stock	\$ 14,818	\$ 15,432
	=====	=====
Net income	\$ 14,830	\$ 15,458
Other comprehensive income (loss), net of tax:		
Unrealized gain on securities	217	605
Reclassification adjustment for gains reported in net income	(466)	(36)
	-----	-----
Comprehensive income	\$ 14,581	\$ 16,027
	=====	=====
Net income per common share:		
Basic	\$ 0.22	\$ 0.23
	=====	=====
Diluted	\$ 0.21	\$ 0.22
	=====	=====
Average common shares outstanding during the period:		
Basic	68,701	67,754
	=====	=====
Diluted	69,461	68,587
	=====	=====

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)

	June 30, 2002	December 31, 2001
	-----	-----
	(Unaudited)	
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 816	\$ 1,116
Common stock, \$.50 par value	34,878	34,650
Capital in excess of par value	311,191	304,039
Retained earnings	158,212	149,682
Minority interest	527	787
Treasury stock	(18,356)	(17,167)
Accumulated other comprehensive income	378	726
	-----	-----
Total stockholders' equity	487,646	473,833
	-----	-----
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	13,586	8,325
2.50% to 4.99%	12,882	9,023
5.00% to 5.49%	50,515	50,545
5.50% to 5.99%	80,260	30,660
6.00% to 6.49%	160,525	160,525
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	58,000	60,000

7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,580	17,595
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,535	53,535
9.50% to 9.99%	45,537	46,031
10.00% to 10.50%	6,000	6,000
	-----	-----
Total First Mortgage Bonds	585,620	529,439
Notes payable, 6.05%, due 2006	344	644
	-----	-----
Installment note payable, 9%, due in equal annual payments through 2013	1,372	1,372
	-----	-----
Current portion of long-term debt	587,336	531,455
	13,849	14,935
	-----	-----
Long-term debt, excluding current portion	573,487	516,520
	-----	-----
Total capitalization	\$ 1,061,133	\$ 990,353
	=====	=====

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

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands of dollars)

(UNAUDITED)

	Six Months Ended	
	June 30,	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income	\$ 26,720	\$ 28,570
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	21,409	19,827
Deferred income taxes	2,949	4,376
Gain on sale of other assets	(1,758)	(2,909)
Net (increase) decrease in receivables, inventory and prepayments	6,108	(515)
Net decrease in payables, accrued interest, accrued taxes and other accrued liabilities	(13,151)	(6,936)
Payment of Competitive Transition Charge	-	(11,465)
Other	488	1,546
	-----	-----
Net cash flows from operating activities	42,765	32,494
	-----	-----
Cash flows from investing activities:		
Property, plant and equipment additions, including allowance for funds used during construction of \$932 and \$512	(56,470)	(50,959)
Acquisitions of water and wastewater systems	(7,865)	(4,187)
Proceeds from the sale of other assets	5,561	3,182
Net increase in funds restricted for construction activity	(10,364)	(168)
Other	(331)	15
	-----	-----
Net cash flows used in investing activities	(69,469)	(52,117)
	-----	-----
Cash flows from financing activities:		
Customers' advances and contributions in aid of construction	4,976	1,998
Repayments of customers' advances	(1,705)	(1,887)
Net proceeds (repayments) of short-term debt	(11,932)	25,876
Proceeds from long-term debt	53,353	7,372
Repayments of long-term debt	(3,612)	(4,272)
Redemption of preferred stock	(300)	-
Proceeds from issuing common stock	6,486	7,042
Repurchase of common stock	(1,472)	(1,075)
Dividends paid on preferred stock	(27)	(53)
Dividends paid on common stock	(18,163)	(16,761)
Other	(1,034)	42
	-----	-----
Net cash flows from financing activities	26,570	18,282
	-----	-----
Net decrease in cash and cash equivalents	(134)	(1,341)
Cash and cash equivalents at beginning of period	1,010	4,087
	-----	-----
Cash and cash equivalents at end of period	\$ 876	\$ 2,746
	=====	=====

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

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1 Basis of Presentation

The accompanying consolidated balance sheet and statement of capitalization of Philadelphia Suburban Corporation ("PSC") at June 30, 2002, the consolidated statements of income and comprehensive income for the six months and quarter ended June 30, 2002 and 2001, and the consolidated statements of cash flow for the six months ended June 30, 2002 and 2001, are unaudited, but reflect all adjustments, consisting of only normal recurring accruals, which are, in the opinion of management, necessary to present fairly the consolidated financial position, the consolidated results of operations, and the consolidated cash flow for the periods presented. Because they cover interim periods, the statements and related notes to the financial statements do not include all disclosures and notes normally provided in annual financial statements and, therefore, should be read in conjunction with the PSC Annual Report on Form 10-K for the year ended December 31, 2001 and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2002. The results of operations for interim periods may not be indicative of the results that may be expected for the entire year. Certain prior year amounts have been reclassified to conform with current year's presentation.

Note 2 Acquisitions

On July 29, 2002, we entered into a purchase agreement with DQE, Inc. ("DQE") and AquaSource, Inc. ("AquaSource") pursuant to which we agreed to acquire three operating water and wastewater first tier subsidiaries of AquaSource, a subsidiary of DQE, and assume selected, integrated operating and maintenance contracts and related assets. The purchase agreement provides for a target cash purchase price of approximately \$205 million. The final purchase price may be increased by up to \$10 million or decreased by up to \$25 million as various purchase price adjustments are applied. These adjustments include the achievement of certain specific operating performance metrics, involving revenue, rate base and projected customer connections. We are purchasing the operating utilities, including assets and franchises that serve approximately 130,000 water and wastewater customer accounts in 12 states, and selected water and wastewater operating contracts that serve approximately 40,000 customers in 7 states. Over 80% of the customers in the businesses we are purchasing are located in Texas, Florida, Virginia and Indiana. The acquisition is subject to certain regulatory approvals, but does not require DQE or PSC shareholder approval. We do not expect to obtain the requisite regulatory approvals before the second half of 2003. Within 45 days of the agreement, AquaSource has the option to sell the operations in several states whose operations represent approximately 6% of the total customers of the businesses we are purchasing, in one or more separate transactions, with a consequent reduction in the target purchase price of up to \$14.8 million. On August 5, 2002, DQE announced the sale of one of the state operations under this option resulting in an adjustment to the target purchase price of less than one-half of the possible purchase price reduction related to this option. It is our intention to fund the acquisition at closing with cash from a combination of short-term debt, long-term debt, the issuance of our common stock and/or an instrument convertible into our common stock. The ultimate decision regarding the funding of the acquisition will be based upon market conditions existing at the time the acquisition is consummated.

(UNAUDITED)

On April 29, 2002, PSC entered into a definitive merger agreement with Pennichuck Corporation ("Pennichuck") pursuant to which we agreed to acquire Pennichuck by issuing shares of our common stock in exchange for all of the outstanding shares of Pennichuck common stock. The merger will be accounted for under the purchase method of accounting. The merger, which is subject to several conditions, including the approval by the shareholders of Pennichuck and the New Hampshire Public Utilities Commission, is expected to close by early 2003. In June 2002, the Federal Trade Commission granted early termination of the 30-day waiting period applicable to the transaction under the Hart-Scott-Rodino Antitrust Improvements Act. Pennichuck's shareholders will receive shares of PSC common stock based on the PSC average closing price as determined under the terms of the merger agreement. If the PSC average closing price is between \$23.00 and \$25.00, Pennichuck's shareholders will receive \$33.00 in value for each share of Pennichuck common stock that they own based on the PSC average closing price. Alternatively, if the PSC average closing price is less than \$23.00, Pennichuck shareholders will receive 1.435 shares of PSC common stock or if it is greater than \$25.00, Pennichuck shareholders will receive 1.320 shares of PSC common stock. After the merger, Pennichuck will be a wholly-owned subsidiary of PSC. Pennichuck is a holding company based in Nashua, New Hampshire whose operating utility subsidiaries serve approximately 28,200 water customers in service territories located in southern and central New Hampshire, and whose non-regulated operating subsidiaries develop real estate and provide water-related operating and management contract services.

During the first half of 2002, eight acquisitions or growth ventures were completed in Pennsylvania, New Jersey and North Carolina. The total purchase price of \$8,420 for the systems acquired consisted of \$7,865 in cash and the issuance of 28,917 shares of PSC common stock.

Note 3 Water Rates

On August 1, 2002, the Pennsylvania Public Utility Commission ("PAPUC") granted Pennsylvania Suburban Water Company ("PSW") a \$21,226 or 10.2% base rate increase. The rates in effect at the time of the filing included \$9,400 in Distribution System Improvement Charges ("DSIC") at 5.0%. Consequently, the total base rates will increase by \$30,626 or 15.4% and the DSIC will be reset to zero. During the first half of 2002, operating subsidiaries located in Ohio, North Carolina and Maine were allowed rate increases, representing six rate adjustments, designed to increase total revenues by approximately \$500 on an annual basis. Revenues from these rate increases realized in the first half of 2002 were approximately \$120. Our operating subsidiary in Illinois also realized approximately \$160 in revenue from implementation of the Qualifying Infrastructure Plant Surcharge in three divisions.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(UNAUDITED)

Note 4 Long-term Debt and Loans Payable

In June 2002, PSW issued \$25,000 of tax-exempt bonds due in 2032 at a rate of 5.55%. The proceeds from these bonds issued are restricted to funding the costs of certain capital projects. PSW also issued a First Mortgage Bond of \$25,000 5.93% Series due 2012. The proceeds of this bond issuance were used to reduce a portion of the balance of short-term debt. During the first half of 2002, operating subsidiaries also issued \$4,293 of long-term debt at varying rates of interest ranging from 0% to 3.24% and due at various times through 2032. The proceeds of these issues were used to reduce a portion of the balance of short-term debt. In connection with acquisitions completed in the first half of 2002, \$6,313 of long-term debt was acquired at an interest rate of 1% due in various years. As of June 30, 2002, the Trustees for various financing

issues held \$30,132 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

Note 5 Stockholders' Equity

PSC reports other comprehensive income in accordance with Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The following table summarizes the activity of accumulated other comprehensive income:

	2002 -----	2001 -----
Balance at January 1,	\$ 726	\$ 926
Unrealized holding gain arising during the period, net of tax of \$185 in 2002 and \$25 in 2001	345	48
Less: reclassification adjustment for gains included in net income, net of tax of \$372 in 2002 and \$19 in 2001	(693)	(36)
	-----	-----
Other comprehensive income (loss), net of tax	(348)	12
	-----	-----
Balance at June 30,	\$ 378	\$ 938
	=====	=====

Vivendi Environnement, through its subsidiaries, owned approximately 16.1% of PSC's outstanding common stock as of July 1, 2002. In May 2002, Vivendi Environnement advised PSC of its decision to sell its investment in PSC. Vivendi Environnement has announced that its decision to sell its interest in PSC is part of their overall strategy to divest non-core assets and focus on other business strategies. On July 8, 2002, PSC filed a Registration Statement to facilitate the orderly re-distribution of a portion of the shares held by Vivendi Environnement's subsidiaries into the market. In addition, on the same date PSC entered into a Registration and Share Purchase Agreement with Vivendi Environnement and its subsidiaries, pursuant to which PSC has agreed to repurchase up to 2,500,000 shares of PSC common stock at the public offering price. If the underwriters elect to exercise their over-allotment option under the proposed Underwriting Agreement, the number of shares that PSC is obligated to repurchase will be reduced by the number of shares purchased by the underwriters in exercising such over-allotment option. It is our intention to fund the repurchase of the shares with proceeds from a short-term credit facility. Interest under this short-term credit facility will be on terms substantially similar to PSC's current short-term lines of credit. It is PSC's current intention to repay these short-term borrowings with proceeds from the issuance of common stock or an instrument convertible into PSC common stock.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 6 Net Income per Common Share

Basic net income per common share is based on the weighted average number of common shares outstanding. Diluted net income per common share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per common share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per common share:

	June 30,		June 30,	
	2002	2001	2002	2001
Average common shares outstanding during the period for Basic computation	68,576	67,598	68,701	67,754
Dilutive effect of employee stock options	832	805	760	833
Average common shares outstanding during the period for Diluted computation	69,408	68,403	69,461	68,587

Note 7 Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("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 but does not expect the effect of adoption on its results of operations or financial position to be material.

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.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. This statement is not expected to have a material impact on the Company's results of operations and financial position.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the provisions of this statement and has not yet determined the effect of adoption on its results of operations and financial position.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Forward-looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this Quarterly Report contain, 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; possible acquisitions and other growth ventures; the expected completion dates for the Pennichuck merger and the AquaSource acquisition; the completion of various construction projects; the impact of drought conditions; the projected effects of recent accounting pronouncements; the funding of the repurchase of PSC common shares from Vivendi Environnement; the final purchase price for and the financing of the purchase of AquaSource; the projected annual value of rate increases; the effect of any additional minimum liability that may be recognized in connection with our defined benefit retirement plans, as well as information contained elsewhere in this report where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans" 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, acquisitions, the rate of return on our pension assets, the approval of the Pennichuck merger by the Pennichuck shareholders and the New Hampshire Public Utilities Commission, and the approval of the AquaSource acquisition by governmental authorities. We undertake no obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

General Information

Philadelphia Suburban Corporation ("we" or "us"), a Pennsylvania 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 approximately 1.3 million residents in the suburban areas north and west of the City of Philadelphia and in fourteen 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 approximately 700,000 residents in various communities in Illinois, Maine, New Jersey, and Ohio. Other subsidiaries provide water and wastewater services in parts of Pennsylvania, North Carolina and Ohio. 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.

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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)

Financial Condition

During the first half of 2002, we had \$56,470 of capital expenditures, acquired water and wastewater systems for \$7,865, repaid \$1,705 of customer advances for construction and made sinking fund contributions and other loan repayments of \$3,612. The capital expenditures were related to improvements to treatment plants, new water mains and customer service lines, the rehabilitation of existing water mains, hydrants and customer service lines, in addition to well and booster improvements.

During the first half of 2002, the proceeds from the issuance of long-term debt, proceeds from the issuance of common stock, internally generated funds, available working capital and funds available under our revolving credit agreement and other credit facilities were used to fund the cash requirements discussed above and to pay dividends. In June 2002, our Pennsylvania operating subsidiary issued \$25,000 of tax exempt bonds due in 2032 at a rate of 5.55% and issued a First Mortgage Bond of \$25,000 5.93% Series due 2012. During the first half of 2002, operating subsidiaries also issued \$4,293 of long-term debt at varying rates of interest ranging from 0% to 3.24% and due at various times through 2032. The proceeds of these issuances were used to reduce a portion of the balance of short-term debt. At June 30, 2002, we had short-term lines of credit of \$180,000, of which \$82,264, was available. Effective with the December 1, 2002 payment, PSC has increased the quarterly cash dividend on common stock from \$.1325 per share to \$.14 per share.

Vivendi Environnement, through its subsidiaries, owned approximately 16.1% of PSC's outstanding common stock as of July 1, 2002. In May 2002, Vivendi Environnement advised PSC of its decision to sell its investment in PSC. Vivendi Environnement has announced that its decision to sell its interest in PSC is part of their overall strategy to divest non-core assets and focus on other business strategies. On July 8, 2002, PSC filed a Registration Statement to facilitate the orderly re-distribution of a portion of the shares held by Vivendi Environnement's subsidiaries into the market. In addition, on the same date PSC entered into a Registration and Share Purchase Agreement with Vivendi Environnement and its subsidiaries, pursuant to which PSC has agreed to repurchase up to 2,500,000 shares of PSC common stock at the public offering price. If the underwriters elect to exercise their over-allotment option under the proposed Underwriting Agreement, the number of shares that PSC is obligated to repurchase will be reduced by the number of shares purchased by the underwriters in exercising such over-allotment option. It is our intention to fund the repurchase of the shares with proceeds from a short-term credit facility. We expect interest under this short-term credit facility to be on terms substantially similar to PSC's current short-term lines of credit. It is PSC's current intention to repay these short-term borrowings with proceeds from the issuance of common stock or an instrument convertible into PSC common stock.

On July 29, 2002, we entered into a purchase agreement with DQE, Inc. ("DQE") and AquaSource, Inc. ("AquaSource") pursuant to which we agreed to acquire three operating water and wastewater first tier subsidiaries of AquaSource, a subsidiary of DQE, and assume selected, integrated operating and maintenance contracts and related assets. The purchase agreement provides for a target cash

purchase price of approximately \$205 million. The final purchase price may be increased by up to \$10 million or decreased by up to \$25 million as various purchase price adjustments are applied. These adjustments include the achievement of certain specific operating performance metrics, involving revenue, rate base and projected customer connections. We are purchasing the operating utilities, including assets and franchises that serve approximately 130,000 water and wastewater customer accounts in 12 states, and selected water and wastewater operating contracts that serve approximately 40,000 customers in 7 states. Over 80% of the customers in the businesses we are purchasing are located in Texas, Florida, Virginia and Indiana. The acquisition is subject to certain regulatory approvals, but does not require DQE or PSC

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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)

shareholder approval. We do not expect to obtain the requisite regulatory approvals before the second half of 2003. Within 45 days of the agreement, AquaSource has the option to sell the operations in several states whose operations represent approximately 6% of the total customers of the businesses we are purchasing, in one or more separate transactions, with a consequent reduction in the target purchase price of up to \$14.8 million. On August 5, 2002, DQE announced the sale of one of the state operations under this option resulting in an adjustment to the target purchase price of less than one-half of the possible purchase price reduction related to this option. As a result of our entering into a purchase agreement with DQE and AquaSource, Standard & Poor's Rating Services ("S&P") placed PSW on Creditwatch with negative implications. The Creditwatch listing reflects concern by S&P that should we fund the acquisition entirely with debt, PSW's credit rating could change. It is our intention to fund the acquisition at closing with cash from a combination of short-term debt, long-term debt, the issuance of our common stock and/or an instrument convertible into our common stock. The ultimate decision regarding the funding of the acquisition will be based upon market conditions existing at the time the acquisition is consummated.

We maintain several defined benefit retirement plans. The accounting for pensions requires the use of assumptions, including discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, and other factors. During the first half of 2002, the fair market value of our plan assets declined due to negative equity market performance, and as a result, we may be required to recognize an additional minimum liability on our balance sheet by December 31, 2002 for one of our plans. The additional minimum liability would equal the excess of the accumulated benefit obligation over the fair value of plan assets and would result in a reduction of our common stockholders' equity as of December 31, 2002. The amount of the additional minimum liability, if any, cannot be determined at this time as it is dependent on the asset returns during the second half of 2002 and the assumed discount rate. However, based on the funding status of the plan at June 30, 2002, the assumption of a zero return on the plan's assets during the second half of 2002 and an assumed 7% discount rate, common stockholders' equity at December 31, 2002 would be reduced by an after-tax adjustment of approximately \$1,400. The recognition of the additional minimum liability is not expected to affect net income or cash flow in 2002. In future years, our pension expense and cash funding requirements are anticipated to increase as a result of the decline in plan assets and we will pursue recovery of such costs in future customer rates.

Management believes that internally generated funds along with existing credit facilities and the proceeds from the issuance of long-term debt and common stock will be adequate to meet our financing requirements for the balance of the year and beyond.

Results of Operations

Analysis of First Six Months of 2002 Compared to First Six Months of 2001

Revenues for the first six months of 2002 increased \$851 or 0.6% primarily due to revenues from the Distribution System Improvement Charge ("DSIC") in Pennsylvania, additional water revenues associated with the larger customer base

due to acquisitions, and increased water rates, offset partially by a decrease in overall water consumption. The DSIC provided \$2,159 of additional revenues over the prior year. The reduced water consumption is primarily due to drought restrictions on water use in Pennsylvania and New Jersey and unfavorable weather conditions in June in portions of our Pennsylvania service territories. In addition, industrial water sales declined due to lower water usage.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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(In thousands of dollars, except per share amounts)

Operations and maintenance expenses increased by \$3,552 or 6.7% due to the additional operating costs associated with acquisitions, increased insurance expense, higher bad debt expense, and increased wages as a result of normal wage rate increases.

Depreciation expense increased \$1,518 or 8.1% reflecting the utility plant placed in service since the second quarter of 2001, including the assets acquired through system acquisitions.

Amortization increased \$64 primarily due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes decreased by \$1,003 or 9.2% due to a reduction in state taxes and a decrease in the Pennsylvania Capital Stock Tax. The decrease in state taxes is a result of a reduction in assessments. The Capital Stock Tax decreased primarily due to a reduction in the base on which the tax is applied in addition to a minor decrease in the Capital Stock Tax rate.

Interest expense decreased by \$495 or 2.5% primarily due to decreased interest rates on borrowings, offset partially by additional borrowings to finance on-going capital projects.

Allowance for funds used during construction ("AFUDC") increased by \$420 primarily due to an increase in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, offset by a decrease in the AFUDC rate which is based on short-term interest rates. The increase in CWIP is primarily due to the \$24,000 expansion and upgrade of a water treatment plant in Pennsylvania. Construction commenced on this facility in 2001 and was completed in mid-2002.

Gain on sale of other assets totaled \$1,758 in the first half of 2002 and \$2,909 in the first half of 2001. Gain on sales of land in the first half of 2002 decreased \$2,161 and gain on sales of marketable securities in the first half of 2002 increased \$1,010 over the same period in 2001.

Our effective income tax rate was 38.9% in the first half of 2002 and 39.6% in the first half of 2001. The change is due to an increase in the tax deductible portion of our book expenses.

Net income available to common stock for the first six months of 2002 decreased by \$1,824 or 6.4%, in comparison to the same period in 2001 primarily as a result of the factors described above. On a diluted per share basis, earnings decreased \$.04 or 9.5% reflecting the change in net income and a 1.5% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through the dividend reinvestment plan, and employee stock and incentive plan and shares issued in connection with acquisitions.

Results of Operations

Analysis of Second Quarter of 2002 Compared to Second Quarter of 2001

Revenues for the quarter decreased \$625 or 0.8% primarily due to an overall decrease in water consumption, offset partially by revenues from the Distribution System Improvement Charge ("DSIC") in Pennsylvania, additional water revenues associated with the larger customer base due to acquisitions, and increased water rates. The reduced water consumption is primarily due to drought

restrictions on water use in Pennsylvania and New Jersey and unfavorable weather conditions in June in portions of our Pennsylvania service territories. In

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(In thousands of dollars, except per share amounts)

addition, industrial water sales declined due to lower water usage. The DSIC provided \$826 of additional revenues over the same period for the prior year.

Operations and maintenance expenses increased by \$2,453 or 9.3% primarily due to the additional operating costs associated with acquisitions, increased insurance expenses, and increased wages as a result of normal wage rate increases.

Depreciation expense increased \$578 or 5.9% reflecting the utility plant placed in service since the second quarter of 2001, including the assets acquired through system acquisitions, and the effect of an increase in the depreciation rates.

Amortization increased \$46 or 7.4% primarily due to the amortization of the costs associated with, and other costs being recovered in, various rate filings.

Taxes other than income taxes decreased by \$729 or 13.6% due to a reduction in state taxes and a decrease in the Pennsylvania Capital Stock Tax. The decrease in state taxes is a result of a reduction in assessments. The Capital Stock Tax decreased primarily due to a reduction in the base on which the tax is applied in addition to a minor decrease in the Capital Stock Tax rate.

Interest expense decreased by \$13 or 0.1% primarily due to decreased interest rates on borrowings, offset partially by additional borrowings to finance on-going capital projects.

Allowance for funds used during construction ("AFUDC") increased by \$282 primarily due to an increase in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, offset by a decrease in the AFUDC rate. The increase in CWIP is primarily due to the \$24,000 expansion and upgrade of a water treatment plant in Pennsylvania. Construction commenced on this facility in 2001 and was completed in mid-2002.

Gain on sale of other assets increased \$1,291 due to an increase in the gain on sale of marketable securities of \$661 and an increase in the gain on the sale of land realized of \$630.

Our effective income tax rate was 38.6% in the second quarter of 2002 and 39.5% in the second quarter of 2001. The change is due to an increase in the tax deductible portion of our book expenses.

Net income available to common stock for the second quarter of 2002 decreased by \$614 or 4.0%, in comparison to the same period in 2001 primarily as a result of the factors described above. On a diluted per share basis, earnings decreased \$.01 or 4.4% reflecting the change in net income and a 1.3% increase in the average number of common shares outstanding. The increase in the number of shares outstanding is primarily a result of the additional shares sold or issued through the dividend reinvestment plan, and employee stock and incentive plan and shares issued in connection with acquisitions.

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

Recent Events

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 during the summer months. 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 in Pennsylvania, including all five of the counties we serve in southeastern Pennsylvania. A drought emergency imposes a ban on non-essential water use. On June 14, 2002 drought restrictions were relaxed in two of the counties we serve in southeastern Pennsylvania, moving from a drought emergency back to a drought warning. On July 16, 2002, drought emergency restrictions were relaxed in a substantial portion of one additional county we serve, reverting to a drought warning condition involving only voluntary conservation. Presently, a drought emergency ban remains in place in two of the counties we serve in southeastern Pennsylvania. There are also water use restrictions as a result of drought conditions nearby or within portions of our service territories in New Jersey. In June 2002 the water restrictions in New Jersey were eased by the State. As a result of the drought declarations, water consumption and water revenues in these areas were reduced below normal levels.

Disclosure regarding other recent events is contained in the "Financial Condition" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations section.

Impact of Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("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, but we do not expect the effect of adoption on our results of operations or financial position to be material.

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 our results of operations or financial position.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things,

rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as

sale-leaseback transactions. This statement is not expected to have an impact on our results of operations or financial position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We are currently evaluating the provisions of this statement and have not yet determined the effect of adoption on our results of operations and financial position.

Risk Factors

Our business requires significant capital expenditures and the rates we charge our customers are subject to regulation. If we are unable to obtain government approval of our requests for rate increases, or if approved rate increases are untimely or inadequate to cover our investments, our profitability may suffer.

The water utility business is capital intensive. On an annual basis, we spend significant sums for additions to or replacement of property, plant and equipment. Our ability to maintain and meet our financial objectives is dependent upon the rates we charge our customers. These rates are subject to approval by the public utility commissions of the states in which we operate. We file rate increase requests, from time to time, to recover our investments in utility plant and expenses. Once a rate increase petition is filed with a public utility commission, the ensuing administrative and hearing process may be lengthy and costly. The timing of our rate increase requests are therefore partially dependent upon the estimated cost of the administrative process in relation to the investments and expenses that we hope to recover through the rate increase to the extent approved. We can provide no assurances that any future rate increase request will be approved by the appropriate state public utility commission; and, if approved, we cannot guarantee that these rate increases will be granted in a timely or sufficient manner to cover the investments and expenses for which we initially sought the rate increase.

Our operating costs could be significantly increased in order to comply with new or stricter regulatory standards imposed by federal and state environmental agencies.

Our water and wastewater services are governed by various federal and state environmental protection and health and safety laws and regulations, including the federal Safe Drinking Water Act, the Clean Water Act and similar state laws, and state and federal regulations issued under these laws by the United States Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish, among other things, criteria and standards for drinking water and for discharges into the waters of the United States and states. Pursuant to these laws, we are required to obtain various environmental permits from environmental regulatory agencies for our operations. We cannot assure you that we have been or will be at all times in total compliance with these laws, regulations and permits. If we violate or fail to comply with these laws, regulations or permits, we could be fined or otherwise sanctioned by regulators. Environmental laws are complex and change frequently. These laws, and the enforcement thereof, have tended to become more

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)

stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance with them and our permits, it is possible that new or stricter standards could be imposed that will raise our operating costs. Although these costs may be recovered in the form of higher rates, there can be no assurance that the various state public utility commissions that govern our business would approve rate increases to enable us to recover such

costs. In summary, we cannot assure you that our costs of complying with, or discharging liability under, current and future environmental and health and safety laws will not adversely affect our business, results of operations or financial condition.

Our business is subject to seasonal fluctuations, which could affect demand for our water service and our revenues.

Demand for our water during the warmer months is generally greater than during cooler months due primarily to additional requirements for water in connection with cooling systems, swimming pools, irrigation systems and other outside water use. Throughout the year, and particularly during typically warmer months, demand will vary with temperature and rainfall levels. In the event that temperatures during the typically warmer months are cooler than expected, or if there is more rainfall than expected, the demand for our water may decrease and adversely affect our revenues.

Drought conditions may impact our ability to serve our current and future customers, and may impact our customers' use of our water, which may adversely affect our financial condition and results of operations.

We depend on an adequate water supply to meet the present and future demands of our customers. Drought conditions could interfere with our sources of water supply and could adversely affect our ability to supply water in sufficient quantities to our existing and future customers. An interruption in our water supply could have a material adverse effect on our financial condition and results of operations. Moreover, governmental restrictions on water usage during drought conditions may result in a decreased demand for our water, even if our water reserves are sufficient to serve our customers during these drought conditions, which may adversely affect our revenues and earnings.

An important element of our growth strategy is the acquisition of water and wastewater systems. Any future acquisitions we decide to undertake may involve risks.

An important element of our growth strategy is the acquisition and integration of water and wastewater systems in order to broaden our current, and move into new, service areas. We will not be able to acquire other businesses if we cannot identify suitable acquisition opportunities or reach mutually agreeable terms with acquisition candidates. Further, we may be required to integrate any businesses we acquire with our existing operations. The negotiation of potential acquisitions as well as the integration of acquired businesses could require us to incur significant costs and cause diversion of our management's time and resources. Future acquisitions by us could result in:

- o dilutive issuances of our equity securities;
- o incurrence of debt and contingent liabilities;
- o fluctuations in quarterly results; and
- o other acquisition-related expenses.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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(In thousands of dollars, except per share amounts)

Some or all of these items could have a material adverse effect on our business and our ability to finance our business. The businesses we acquire in the future may not achieve sales and profitability that justify our investment and any difficulties we encounter in the integration process could interfere with our operations and reduce our operating margins. In addition, as consolidation becomes more prevalent in the water and wastewater industries, the prices for suitable acquisition candidates may increase to unacceptable levels and limit our ability to grow through acquisitions.

Contamination to our water supply may result in disruption in our services and litigation which could adversely affect our business, operating results and financial condition.

Our water supplies are subject to contamination, including contamination from the development of naturally-occurring compounds and chemicals in groundwater systems, and pollution resulting from man-made sources.

In the event that our water supply is contaminated, we may have to interrupt the use of that water supply until we are able to substitute the flow of water from an uncontaminated water source. In addition, we may incur significant costs in order to treat the contaminated source through expansion of our current treatment facilities, or development of new treatment methods. If we are unable to substitute water supply from an uncontaminated water source, or to adequately treat the contaminated water source in a cost-effective manner, there may be an adverse effect on our revenues, operating results and financial condition. The costs we incur to decontaminate a water source or an underground water system could be significant and could adversely affect our business, operating results and financial condition.

In addition to the potential pollution of our water supply as described above, in the wake of the September 11, 2001 terrorist attacks and the ensuing threats to the nation's health and security, we have taken steps to increase security measures at our facilities and heighten employee awareness of threats to our water supply. We have also tightened our security measures regarding the delivery and handling of certain chemicals used in our business. We have and will continue to bear increased costs for security precautions to protect our facilities, operations and supplies. These costs may be significant. We are currently not aware of any specific threats to our facilities, operations or supplies; however, it is possible that we would not be in a position to control the outcome of terrorist events should they occur.

We could also be held liable for consequences arising out of human exposure to hazardous substances in our water supplies or other environmental damage. For example, private plaintiffs have the right to bring personal injury or other toxic tort claims arising from the presence of hazardous substances in our drinking water supplies. Our insurance policies may not be sufficient to cover the costs of these claims.

We depend significantly on the services of the members of our senior management team, and the departure of any of those persons could cause our operating results to suffer.

Our success depends significantly on the continued individual and collective contributions of our senior management team. The loss of the services of any member of our senior management or the inability to hire and retain experienced management personnel could harm our operating results.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest and equity prices. There have been no significant changes in our exposure to market risks since December 31, 2001. Refer to Item 7A of the Company's Annual Report on Form 10K for the year ended December 31, 2001 for additional information.

Part II. Other Information

Item 1. Legal Proceedings

There are no pending legal proceedings to which we or any of our subsidiaries is a party or to which any of their properties is the subject that are expected to have a material effect on our financial position, results of operations or cash flows.

Item 4. Results of Vote of Security Holders

The Annual Meeting of Shareholders of Philadelphia Suburban Corporation was held on May 16, 2002 at the Springfield Country Club, 400 West Sproul Road, Springfield, Pennsylvania, pursuant to the Notice sent on or about April 8, 2002 to all shareholders of record at the close of business on March 25, 2002. At that meeting, the following nominees were elected as directors of Philadelphia Suburban Corporation for

terms expiring in the year 2005 and received the votes set forth after their names below:

Name of Nominee	For	Withheld
G. Fred DiBona, Jr	47,265,862	515,494
Mary C. Carroll	47,284,419	496,937
John E. Menario	47,306,170	475,186

Since the Board of Directors is divided into three classes with one class elected each year to hold office for a three-year term, the term of office for the following directors continued after the Annual Meeting; Nicholas DeBenedictis; Richard H. Glanton, Esq.; Alan R. Hirsig, John F. McCaughan and Richard L. Smoot.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Description
4.23	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002
10.42	Bond Purchase Agreement among the Bucks County Industrial Development Authority, Pennsylvania Suburban Water Company and Janney Montgomery Scott LLC, dated May 21, 2002
10.43	Construction and Financing Agreement between the Bucks County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002
10.44	Registration and Stock Purchase Agreement, dated as of July 8, 2002, among Philadelphia Suburban Corporation, Vivendi Environnement S.A., Vivendi Water S.A. and Vivendi North America Company (1)
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1) Filed as Exhibit 10.1 to the Registration Statement on Form S-3 filed on July 8, 2002 (Registration No. 333-92050).

(b) Reports on Form 8-K

Current Report on Form 8-K filed on May 14, 2002, responding to Item 5, Other Events. (Related to the Company's press release of May 12, 2002 announcing a change in the investment strategy of our long-term shareholder, Vivendi Environnement).

Current Report on Form 8-K filed on August 5, 2002, responding to Item 5, Other Events. (Related to the Company entering into a purchase agreement with DQE, Inc. and AquaSource, Inc. pursuant to which we agreed to acquire three of AquaSource's investor-owned water and wastewater utilities and selected, integrated operating and maintenance contracts and related assets).

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SIGNATURES

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

August 12, 2002

PHILADELPHIA SUBURBAN CORPORATION

Registrant

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman and President

/s/ David P. Smeltzer

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

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EXHIBIT INDEX

Exhibit No.	Description	Page No.
4.23	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002	24
10.42	Bond Purchase Agreement among the Bucks County Industrial Development Authority, Pennsylvania Suburban Water Company and Janney Montgomery Scott LLC, dated May 21, 2002	58
10.43	Construction and Financing Agreement between the Bucks County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002	82
10.44	Registration and Stock Purchase Agreement, dated as of July 8, 2002, among Philadelphia Suburban Corporation, Vivendi Environnement S.A., Vivendi Water S.A. and Vivendi North America Company (1)	--
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	111
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(1) Filed as Exhibit 10.1 to the Registration Statement on Form S-3 filed on July 8, 2002 (Registration No. 333-92050).

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THIRTY-SIXTH SUPPLEMENTAL
INDENTURE

DATED AS OF JUNE 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

TO

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION

THIRTY-SIXTH SUPPLEMENTAL INDENTURE

THIRTY-SIXTH SUPPLEMENTAL INDENTURE dated as of the 1st day of June, 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 thirty-four supplemental indentures supplemental to the Original Indenture, and the Company duly executed and delivered to the Trustee a Thirty-Fifth Supplemental Indenture dated as of January 1, 2002 (the "Thirty-Fifth Supplemental Indenture") 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, 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

WHEREAS, pursuant to the Thirty-Fifth Supplemental Indenture, the Company agreed to assume the obligations of the Original Company under the Original Indenture and all supplements thereto; 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 Original or Supplemental Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

Designation -----	Indenture -----	Amount -----
3 1/4% Series due 1971	Original	\$16,375,000
9 5/8% Series due 1975	Thirteenth Supplemental	10,000,000
9.15% Series due 1977	Fourteenth Supplemental	10,000,000
3% Series due 1978	First Supplemental	2,000,000
3 3/8% Series due 1982	Second Supplemental	4,000,000
3.90% Series due 1983	Third Supplemental	5,000,000
3 1/2% Series due 1986	Fourth Supplemental	6,000,000
4 1/2% Series due 1987	Fifth Supplemental	4,000,000
4 1/8% Series due 1988	Sixth Supplemental	4,000,000
5% Series due 1989	Seventh Supplemental	4,000,000
4 5/8% Series due 1991	Eighth Supplemental	3,000,000
4.70% Series due 1992	Ninth Supplemental	3,000,000
6 7/8% Series due 1993	Twelfth Supplemental	4,500,000
4.55% Series due 1994	Tenth Supplemental	4,000,000
10 1/8% Series due 1995	Sixteenth Supplemental	10,000,000
5 1/2% Series due 1996	Eleventh Supplemental	4,000,000
7 7/8% Series due 1997	Fifteenth Supplemental	5,000,000
8.44% Series due 1997	Twenty-Third Supplemental	12,000,000
9.20% Series due 2001	Seventeenth Supplemental	7,000,000
8.40% Series due 2002	Eighteenth Supplemental	10,000,000
5.95% Series due 2002	Twenty-Seventh Supplemental	4,000,000
12.45% Series due 2003	Twentieth Supplemental	10,000,000
13% Series due 2005	Twenty-First Supplemental	8,000,000
10.65% Series due 2006	Twenty-Second Supplemental	10,000,000
9.89% Series due 2008	Twenty-Fourth Supplemental	5,000,000
7.15% Series due 2008	Twenty-Eighth Supplemental	22,000,000

9.12% Series due 2010	Twenty-Fifth Supplemental	20,000,000
8 7/8% Series due 2010	Nineteenth Supplemental	8,000,000
6.50% Series due 2010	Twenty-Seventh Supplemental	3,200,000
9.17% Series due 2011	Twenty-Sixth Supplemental	5,000,000
9.93% Series due 2013	Twenty-Fourth Supplemental	5,000,000

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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	
9.53% Subseries D due 2019	4,000,000	
6.375% Subseries E due 2023	14,000,000	
8.26% Subseries F due 2022	1,500,000	
9.50% Subseries G due 2006	1,440,000	
9.22% Subseries H due 2019	2,534,480	
8.32% Subseries I due 2022	3,500,000	
8.14% Subseries J due 2025	4,000,000	
6.00% Subseries K due 2030	18,360,000	
5.35% Series due 2031	Thirty-Fourth Supplemental	30,000,000

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

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

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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

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Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003	291
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030	502
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662	1045
Twenty-First Supplemental	8/27/85	2690	806	54	550	-	-	5864	1347
Twenty-First Supplemental	8/28/85	-	-	-	-	264	159	-	-
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944	360
Twenty-Third Supplemental	4/1/87	2960	693	-	-	-	-	-	-
Twenty-Third Supplemental	4/2/87	-	-	680	337	447	1807	6115	602
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324	143
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538	376
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780	891
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918	302
Twenty-Eighth Supplemental	4/22/93	0652	1335	3542	1542	1081	0852	7112	0539
Twenty-Ninth Supplemental	3/30/95	1045	1872	3875	1368	1349	0829	7561	1155
Thirtieth Supplemental	8/30/95	1111	0798	3932	0471	1393	2255	7631	0689
Thirty-First Supplemental	7/11/97	1421	2196	4201	2133	1607	138	7968	779
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

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Indenture	Date of Recording	Bucks		Chester		Delaware		Montgomery	
		Book	Page	Book	Page	Book	Page	Book	Page
Thirty-Fourth Supplemental	10/31/01	2471	1207	5101	2142	2288	0174	9225	761
Thirty-Fifth Supplemental	1/10/02	2541	765	5152	818	2329	1019	9314	1079

; 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, the Thirty-Fourth Supplemental Indenture was recorded in Berks County on October 31, 2001 and the Thirty-Fifth Supplemental Indenture was recorded in Berks County on January 10, 2002 in Books 3113, 3132, 3149, 3421 and 3461 and at Pages 707, 1510, 1260, 896, and 417, respectively; and

WHEREAS, in order to secure the Lien of the Original Indenture on the properties of the Merging Entities, the 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 had already been recorded), was also recorded in the counties of Bradford, Columbia, Lawrence (Book 1688, Page 744), Mercer, Northumberland, (Book 1404, Page 246), Pike (Book 1909, Page 2328), Schuylkill (Book 1413, Page 1) and Wayne (Book 1911, Page 1); 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, Thirty-Fourth and Thirty-Fifth Supplemental Indentures, the Company has acquired certain other property and desires to confirm the lien of the Original Indenture thereon; 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-Sixth Supplemental Indenture, a new series of bonds to be designated "First Mortgage Bonds, 5.55% Series due 2032" (herein referred to as the "Bonds") to be limited in aggregate principal amount to \$25,000,000, to be issued only as registered bonds without coupons, to be dated the date of delivery thereof, to bear interest at the rate of 5.55% per annum, and to mature on September 1, 2032; and

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WHEREAS, in order to finance the cost of acquiring, constructing, installing and equipping facilities for the furnishing of water, in the counties of Berks, Bucks, Chester, Delaware and Montgomery which are to be financed under a Construction and Financing Agreement dated as of June 1, 2002 (the "Financing Agreement") between the Company and the Bucks 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 (Pennsylvania Suburban Water Company Project), Series of 2002 in the aggregate principal amount of \$25,000,000 (the "Authority Bonds"); and

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of June 1, 2002 (the "Authority Indenture"), between the Authority and Wachovia Bank, National Association, as trustee (the "Authority Trustee"); and

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

WHEREAS, the right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments are to be assigned by the Authority to the Authority Trustee, and the Bonds are to be delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as security for the payment of the principal

of, redemption premium, if any, and interest on, the Authority Bonds; and

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, 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-Sixth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Thirty-Sixth Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Thirty-Sixth Supplemental Indenture setting forth the

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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:

No. R-1

\$25,000,000

PENNSYLVANIA SUBURBAN WATER
COMPANY

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.55% Series Due 2032

Pennsylvania Suburban Water Company (successor by merger to 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 Bucks County Industrial Development Authority or its registered assigns, on the 1st day of September, 2032, at the designated office of J.P. Morgan Trust Company, National Association (hereinafter called the "Trustee") in Dallas, Texas, the sum of Twenty-Five Million Dollars in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts and to pay interest thereon 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 September 1, 2002, from the date hereof) until the principal hereof shall become due and payable, at the rate of five and fifty-five one hundredths percent (5.55%) per annum, payable semiannually in like coin or currency on the first day of March and the first day of September in each year, commencing September 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 5.55% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Thirty-Sixth 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 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.

IN WITNESS WHEREOF, Pennsylvania 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 June 1, 2002.

Attest:

PENNSYLVANIA 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 Philadelphia Suburban Water Company (now Pennsylvania Suburban Water Company as successor by merger) to The Pennsylvania Company for Insurances on Lives and Granting Annuities (succeeded as trustee by J.P. Morgan Trust Company, National Association), as 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-Sixth Supplemental Indenture" dated as of June 1, 2002, and designated therein as "First Mortgage Bonds, 5.55% Series due 2032" (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 June 1, 2002, between the Bucks 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 Berks, 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 (Pennsylvania Suburban Water Company Project), Series of 2002, in the aggregate principal amount of \$25,000,000 due September 1, 2032 (the "Authority Bonds") and bearing interest at 5.55% per annum.

The Authority Bonds are to be issued under a Trust Indenture, dated as of June 1, 2002 (the "Authority Indenture"), between the Authority and Wachovia Bank, National Association, as trustee (the "Authority Trustee"). The right, title and interest of the Authority in and to the Financing Agreement and the payments thereunder and the security for such payments have been assigned by the Authority to the Authority Trustee, and the Bonds have been delivered by the Company on behalf of the Authority directly to the Authority Trustee, as assignee, as

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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.

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 March 1, 2012 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01(a) 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 -----
March 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) 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,

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provided that at the time of notice of such redemption as provided in Section 2 of Article V of the Original Indenture (i) said written demand shall not have been withdrawn by the Authority Trustee, and (ii) no event of default under Section 1 of Article XI of the Original Indenture shall have occurred and be continuing.

If this Bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, interest shall cease to accrue hereon or on such portion, as the case may be, from and after the date fixed for redemption.

The principal hereof may be declared or may become due prior to its maturity date on the conditions, in the manner and with the effect set forth in the Indenture upon the happening of an event of default, as in the Indenture provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of Bonds outstanding to annul such declaration.

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in 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 J.P. Morgan Trust Company, National Association, as Trustee under the Indenture, or a successor trustee thereunder, shall have signed the certificate of authentication endorsed hereon.

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(Form of Trustee's Certificate)

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

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION

By: _____
Authorized Signer

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

NOW, THEREFORE, THIS THIRTY-SIXTH 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-Sixth 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 B hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Thirty-Fifth 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.

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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.

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

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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.

Form, Authentication and Delivery of the Bonds;
Redemption Provisions

SECTION 1. There shall be a forty-first series of bonds, limited in aggregate principal amount to \$25,000,000 designated as "Pennsylvania Suburban Water Company, First Mortgage Bonds, 5.55% Series due 2032".

Interest on the Bonds shall be payable semiannually on March 1 and September 1 of each year (each an "interest payment date"), commencing September 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 shall bear interest from the date of original issuance of the Bonds; 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 the date of original issuance thereof. 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 September 1, 2032 and shall bear interest at the rate of 5.55%.

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.

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The person in whose name any Bond is registered at the close of business on any Record Date (as hereinafter defined) with respect to any interest payment date shall be entitled to receive the interest payable on such interest payment date notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the Record Date and prior to such interest payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on such interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent Record Date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen days preceding such subsequent Record Date, such Record Date to be not less than ten days preceding the date of payment of such defaulted interest. The term "Record Date" with respect to any regular interest payment date shall mean the fifteenth day of the calendar month next preceding the month in which such interest payment date occurs.

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

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

The text of the Bonds and of the certificate of the Trustee upon such Bonds shall be, respectively, substantially of the tenor and effect hereinbefore recited.

Exchange of any Bonds shall be effected in accordance with the applicable provisions of Sections 7, 8 and 9 of Article II of the Original Indenture.

SECTION 2. The Bonds are redeemable only as follows:

(a) The Bonds are subject to redemption prior to maturity on or after March 1, 2012 by the Company, to the extent that the Authority Bonds are called for redemption under Section 7.01(a) 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:

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Optional Redemption Period -----	Redemption Price -----
March 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) 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.

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-Sixth 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

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paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond.

SECTION 7. Bonds in the aggregate principal amount of \$25,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

ARTICLE II.

Maintenance or Improvement Deposit.

SECTION 1. The Company covenants that it will deposit with the Trustee on or before the March 1 next occurring after the bonds of the 9.89% Series due 2008 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.97% Series due 2018 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.12% Series due 2010 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.29% Series due 2026 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.17% Series due 2021 cease to be outstanding, or on or before the next March 1 next occurring after the bonds of the 9.17% Series due 2011 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 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, the 6.21% Subseries C due 2011, the 9.53% Subseries D due 2019, the 6.375% Subseries E due 2023, the 8.26% Subseries F due 2022,

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the 9.50% Subseries G due 2006, the 9.22% Subseries H due 2019, the 8.32% Subseries I due 2022, the 8.14% Subseries J due 2025 and the 6.00% Subseries K due 2030) 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)

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any part of such amount for which the Company then desires to take credit against the Maintenance or Improvement Deposit;

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

(vi) The Cost or Fair Value, whichever is

less, of Available Permanent Additions acquired by the Company during the preceding calendar year;

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

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

(ix) The sum of all amounts charged on the books of the Company against any reserve for retirement or depreciation during the preceding calendar year representing the aggregate of the Cost when acquired of any part of the Company's plants and property of the character described in the granting clauses hereof which has been permanently retired or abandoned;

(x) The aggregate of the amounts set forth in subparagraphs (v) and (vii) hereof;

(xi) The amount by which the amount set forth in subparagraph (x) exceeds the amount set forth in subparagraph (ix), being the amount required to be deducted from the Cost or Fair Value of Available Permanent Additions in order to determine a Net Amount of Available Permanent Additions pursuant to the provisions of Section 9 of Article I of the Original Indenture;

(xii) The amount set forth in subparagraph (vi) after deducting the amount, if any, set forth in subparagraph (vii); and

(xiii) That all conditions precedent to the taking of the credit or credits so requested by the Company have been complied with.

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of

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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-Sixth 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, 2001, 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

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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.

"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

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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-Sixth 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.

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

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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.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.

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, Thirty-Fourth and Thirty-Fifth Supplemental Indentures are hereby confirmed. All references in this Thirty-Sixth Supplemental Indenture to the Original

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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-Sixth 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

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-Sixth 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-Sixth Supplemental Indenture is dated as of June 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-Sixth 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 June, 2002.

[CORPORATE SEAL]

PENNSYLVANIA SUBURBAN WATER COMPANY, as successor by merger to Philadelphia Suburban Water Company

Attest: Roy H. Stahl

Secretary

By: Kathy L. Pape

Vice President and Treasurer

[CORPORATE SEAL]

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

Attest: Alan R. Halpern

Authorized Officer

By: 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 -----
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3.25% Series Due	1971		12/31/1970	Redemption
9.63% Series Due	1975		6/15/1975	Maturity
9.15% Series Due	1977		1/1/1977	Maturity
3.00% Series Due	1978		7/1/1978	Maturity
3.38% Series Due	1982		7/1/1982	Maturity
3.90% Series Due	1983		7/1/1983	Maturity
3.50% Series Due	1986		1/1/1986	Maturity
4.50% Series Due	1987		1/1/1987	Maturity
4.13% Series Due	1988		5/1/1988	Maturity
5.00% Series Due	1989		9/1/1989	Maturity
4.63% Series Due	1991		5/1/1991	Maturity
4.70% Series Due	1992		4/1/1992	Maturity
6.88% Series Due	1993		1/1/1993	Maturity
4.55% Series Due	1994		3/1/1994	Maturity
10.13% Series Due	1995	\$ 6,300,000	-	Sinking Fund
10.13% Series Due	1995	\$ 3,700,000	5/17/1993	Redemption
9.20% Series Due	2001	\$ 3,850,000	-	Sinking Fund
9.20% Series Due	2001	\$ 3,150,000	5/1/1993	Redemption
8.40% Series Due	2002	\$ 5,850,000	-	Sinking Fund
8.40% Series Due	2002	\$ 4,150,000	1/2/1996	Redemption
5.95% Series Due	2002	\$ 3,600,000	-	Sinking Fund
12.45% Series Due	2003	\$ 1,000,000	8/1/1933	Sinking Fund
12.45% Series Due	2003	\$ 9,000,000	8/2/1993	Redemption
8.88% Series Due	2010	\$ 800,000	-	Sinking Fund
8.88% Series Due	2010	\$ 7,200,000	6/30/1992	Redemption
13.00% Series Due	2005		8/2/1995	Redemption
7.88% Series Due	1997		1/2/1996	Redemption
10.65% Series Due	2006		4/2/1996	Redemption
5.50% Series Due	1996		11/1/1996	Maturity
8.44% Series Due	1997		4/1/1997	Maturity
7.15% Series Due	2008	\$ 10,000,000	-	Sinking Fund

EXHIBIT B

Name	Grantor	Grantee	County	Deed Date	Deed Book	Page
----	-----	-----	-----	-----	-----	----
Chalfont Well 8	Borough of Chalfont	PSWCO	Bucks	11/1/2001	2477	1677
Chalfont Well 11	Borough of Chalfont	PSWCO	Bucks	11/1/2001	2477	1682
Chalfont Well 12	Borough of Chalfont	PSWCO	Bucks	11/1/2001	2477	1688
Chalfont Tank 2	Borough of Chalfont	PSWCO	Bucks	11/1/2001	2477	1688

J.P. Morgan Trust Company National Association, Mortgagee and Trustee named in the foregoing Thirty-Sixth 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: Catherine Lenhardt

Authorized Officer

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the 31st day of May, 2002, 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-Sixth 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]

Catherine A. Iezzi

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 29th day of May, 2002 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-Sixth 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]

Sandra M. Abrahams

BOND PURCHASE AGREEMENT

\$25,000,000
BUCKS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
Water Facilities Revenue Bonds
(Pennsylvania Suburban Water Company Project) Series of 2002

Bond Purchase Agreement dated May 21, 2002, among the BUCKS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Authority"), PENNSYLVANIA SUBURBAN WATER COMPANY, a Pennsylvania corporation (the "Company"), and JANNEY MONTGOMERY SCOTT LLC, a Delaware limited liability company as representative on behalf of the underwriters (the "Underwriter").

1. Background.

(a) The Authority proposes to enter into a Construction and Financing Agreement (the "Financing Agreement") dated as of June 1, 2002 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 \$25,000,000 aggregate principal amount of the bonds identified above (the "Bonds") to the Underwriter, who will in turn reoffer the Bonds for sale to the public;

(b) The Bonds will be issued pursuant to the Pennsylvania Economic Development Financing Law, Act of August 23, 1967, P.L. 251, as amended and supplemented (the "Act"), a resolution adopted by the Authority on May 2, 2002 (the "Authority Resolution") and under a Trust Indenture dated as of June 1, 2002 (the "Trust Indenture"), between the Authority and Wachovia Bank, National Association, as trustee (the "Trustee"). The Bonds will have such terms as are set forth in Schedule I attached hereto. The Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond, to be issued in the principal amount of \$25,000,000 (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 JP Morgan 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-Sixth Supplemental Indenture of Mortgage dated as of June 1, 2002 (the "Thirty-Sixth Supplemental Mortgage," which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage"). 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 May 10, 2002, 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 \$24,750,000 consisting of the aggregate principal amount of the Bonds (\$25,000,000), less an underwriters' discount of \$250,000, plus accrued interest. 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 Eckert, Seamans, Cherin & Mellott, LLC, bond counsel, at 10:00 a.m., Eastern Daylight Time, on June 5, 2002 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 Eckert Seamans Cherin & Mellott, LLC, 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 Philadelphia, 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

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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;

(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 December 31, 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

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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;

(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-Sixth Supplemental Mortgage has been duly authorized. When the Thirty-Sixth 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-Sixth 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-Sixth 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

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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;

(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 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-Sixth 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 delivery of the First Mortgage Bond; the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Thirty-Sixth 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;

(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

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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 contained in the Preliminary Official Statement and the Official Statement (including appendices A and B 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, the Company, the First Mortgage Bond or any document delivered by the Company in connection with the issuance of the Bonds 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 or 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, the Project, the Bonds or any document delivered by the Company in connection with the issuance of the First Mortgage Bond 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 June 1, 2002 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

Indemnatee against the Company or the Underwriter, as the case may be (the "Indemnifying Party"), the Indemnatee 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 Indemnatee 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 Indemnatee 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 Indemnatee 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

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considerations. The relative benefit received by the Company or the Underwriter shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting issuance costs and expenses other than underwriting fees and commissions) received by the Company, on the one hand, bear to the total underwriting fees and commissions received by the Underwriter, on the other hand. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact related to information supplied by the Company or the Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriter agree that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 9. The amount paid or payable by the Underwriter as a result of the losses, claims, damages or liabilities referred to above in this Section 9 shall be deemed to include any 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

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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.

(c) At or before 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 Eckert Seamans Cherin & Mellot, LLC, 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 Begley, Carlin & Mandio, 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 Saul Ewing LLP, counsel for the Underwriter, in form and substance reasonably satisfactory to the Underwriter;

(v) An opinion of legal counsel to the Financial Guaranty Insurance Company (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

(vi) A certificate dated the date of Closing executed by 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;

(vii) 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;

(viii) Two executed copies of the Trust Indenture, the Financing Agreement, the Bond Purchase Agreement, the Thirty-Sixth Supplemental Mortgage and the Continuing Disclosure Agreement;

(ix) 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-Sixth 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;

(x) 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;

(xi) Letters from PricewaterhouseCoopers, LLP, 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;

(xii) 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;

(xiii) Evidence satisfactory to the Underwriter that a rating of "AAA" assigned by Standard & Poor's with respect to the Bonds based upon the Insurance Policy and that an underlying rating of "AA-" for the Company are in full force and effect as of the date of Closing;

(xiv) 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;

(xv) 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

(xvi) Such additional documentation as the Underwriter or its counsel or Bond Counsel may reasonably request to evidence compliance with applicable law and the validity of the Bonds, the Financing Agreement, the 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

(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 (at least 10% of each maturity) 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.

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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.

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

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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-Sixth 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:

Janney Montgomery Scott LLC
1801 Market Street
Philadelphia, PA 19103
Attention: William Carlin, Jr.
First Vice President

Fax #: (215) 587-9943

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

The Authority:

Bucks County Industrial Development Authority
Two East Court Street
Doylestown, PA 18901

Attention: Robert F. Cormack, Executive Director

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Fax #: (215) 348-8829

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.

BUCKS COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: Harry W. Fawkes

Chairman

PENNSYLVANIA SUBURBAN WATER
COMPANY

By: Kathy L. Pape

Vice President, Treasurer & Rate Counsel

JANNEY MONTGOMERY SCOTT LLC

By: William Carlin, Jr.

First Vice President

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SCHEDULE I

Terms of Bonds

Principal Amount: \$25,000,000

Dated Date: June 1, 2002

Maturity Date: September 1, 2032

Interest Payment Dates: March 1 and September 1, commencing September 1, 2002

Rate of Interest: 5.55%

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 March 1, 2012, as a whole or in part at any time, at the redemption price of 100% of principal amount redeemed, 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.

EXHIBIT A

June 5, 2002

Janney Montgomery Scott, LLC
1801 Market Street
Philadelphia, PA 19103

First American Municipals, Inc.
606 Corporate Drive
Langhorne, PA 19047

Financial Guaranty Insurance
Company
125 Park Avenue
New York, NY 10017

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

Re: \$25,000,000, Bucks County Industrial Development Authority, Water
Facilities Revenue Bonds, (Pennsylvania Suburban Water Company
Project), Series of 2002

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Bucks County Industrial Development Authority (the "Authority") of \$25,000,000, aggregate principal amount of its Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project) Series of 2002 (the "Bonds") pursuant to the provisions of a Trust Indenture dated as of June 1, 2002 (the "Indenture"), between the Authority and Wachovia Bank, National Association, as Trustee.

This opinion is being rendered pursuant to the Bond Purchase Agreement, dated May 21, 2002 relating to the Bonds (the "Bond Purchase Agreement"), and supplements our opinion as Bond Counsel delivered concurrently herewith.

The terms used herein, which are defined in the Bond Purchase Agreement and the Indenture, are used in this opinion with the same meaning as so defined.

Based on the foregoing, we are of the opinion that:

(a) the Bond Purchase Agreement has been duly authorized, executed and delivered by the Authority;

(b) the execution and delivery of the Official Statement has been duly authorized by the Authority;

(c) the offer and sale of the Bonds do not require registration of the Bonds pursuant to the Securities Act of 1933, as amended, and the Indenture is not required to be qualified pursuant to the Trust Indenture Act of 1939, as amended; and

(d) the information and statements contained in the Official Statement under the sections captioned "INTRODUCTORY STATEMENT - General", "INTRODUCTORY STATEMENT - Description of the Bonds", "INTRODUCTORY STATEMENT - Security for the Bonds", "THE

BONDS" (except for the subpart entitled "Book Entry-Only System" as to which no opinion is expressed), "SECURITY FOR THE BONDS - Limited Obligations", "SECURITY FOR THE BONDS - Assignment of Agreement and Pledge of Revenues", "SECURITY FOR THE BONDS - The Agreement" and in Appendix C thereto (insofar as such information and statements purport to summarize provisions of the Bonds, the

Indenture and the Financing Agreement) accurately summarize in all material respects the provisions of the Bonds, the 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.

No opinion is expressed herein with respect to any statistical data, technical and financial statements, operating statistics and other financial data contained in said Official Statement.

We further advise you that you may rely on our approving opinion as Bond Counsel dated the date hereof as if such opinion had been directed to you in the first instance.

Very truly yours,

ECKERT SEAMANS CHERIN & MELLOTT, LLC

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 "INTRODUCTORY STATEMENT" and "ABSENCE OF MATERIAL LITIGATION" (insofar as such information relates to the Authority) and "THE AUTHORITY" has been reviewed by us and nothing has come to

our attention which would lead us to believe that such information contains any untrue statement of a material fact or omits to state a material fact which is required to be stated therein or which is necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect.

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-Sixth Supplemental Mortgage, 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-Sixth Supplemental Mortgage, 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-Sixth 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-Sixth 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 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; the Original Indenture and the Thirty-Sixth Supplemental Mortgage have been properly recorded in the Counties of Berks, Bradford, Bucks,

Chester, Columbia, Delaware, Lawrence, Mercer, Montgomery, Northumberland, Pike, Schuylkill and Wayne in the Commonwealth of Pennsylvania and such recordations are the only recordations necessary in order to establish, preserve, protect and perfect the lien of the Mortgage on all real estate and fixed property of the Company (excluding easement and other similar rights) described in the Mortgage as subject to the lien thereof.

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 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-Sixth 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 delivery of the First Mortgage Bond; the execution, delivery and performance of this Bond Purchase Agreement, the Financing Agreement, the Thirty-Sixth 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. The Mortgage and the First Mortgage Bond conform in all material respects as to legal matters to the descriptions thereof in the Official Statement.

15. We have not independently verified the accuracy, completeness or fairness of the statements made or included in the Official Statement and take no responsibility therefor, except to the extent referred to in paragraph 14 and this paragraph. In the course of the preparation by the Company of the Official Statement, we participated in conferences with certain officers and employees of the Company, examined the Official Statement and made certain inquiries in connection with the preparation of the Official Statement. Subject to the foregoing, we have no reason to believe that the Official Statement contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (it being understood that we express no opinion with respect to the financial statements and the notes thereto, schedules and other financial or statistical data included or incorporated by reference therein).

CONSTRUCTION AND FINANCING AGREEMENT

between

BUCKS COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

PENNSYLVANIA SUBURBAN WATER COMPANY

Dated as of June 1, 2002

=====
 Relating to
 \$25,000,000 aggregate principal amount of
 Bucks County Industrial Development Authority
 Water Facilities Revenue Bonds
 (Pennsylvania Suburban Water Company Project)
 Series of 2002
 =====

=====
 SUBSTANTIALLY ALL OF THE RIGHTS OF THE BUCKS COUNTY INDUSTRIAL DEVELOPMENT
 AUTHORITY IN AND TO THIS AGREEMENT HAVE BEEN ASSIGNED TO WACHOVIA BANK, NATIONAL
 ASSOCIATION, AS TRUSTEE UNDER THE TRUST INDENTURE DATED AS OF JUNE 1, 2002
 BETWEEN SAID AUTHORITY AND SAID TRUSTEE.
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CONSTRUCTION AND FINANCING AGREEMENT

THIS CONSTRUCTION AND FINANCING AGREEMENT, dated as of June 1, 2002 (as it may be amended, supplemented or otherwise modified and in effect from time to time, this "Agreement"), by and between the BUCKS 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 PENNSYLVANIA 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 May 2, 2002 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 as described in Exhibit A hereto) 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 \$25,000,000 aggregate principal amount of its Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project), Series of 2002 (the "2002 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 2002 Bonds are to be issued under and secured by a Trust Indenture, dated as of June 1, 2002 (as it may be amended, supplemented or otherwise modified and in effect from time to time, the "Indenture"), between the Authority and Wachovia Bank, National Association, a national banking association organized and existing under the laws of the United States of America and having a corporate trust office and place of business in Philadelphia, Pennsylvania, as 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. 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.

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"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.

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 February 28, 2002, 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

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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 \$25,000,000.

(c) The Facilities are to be located in the Counties of Bucks,

Berks, Chester, Delaware and Montgomery Counties in the Commonwealth, and within the authorized service area of the Company.

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

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

(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 2002 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 2002 Bonds and deliver the proceeds thereof

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to the Trustee. A sum equal to the accrued interest, if any, paid by the initial purchasers of the 2002 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 2002 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 not properly included in the "Cost" of the Project as defined in the Indenture or which, if paid, would result in less than 95% of the proceeds from the 2002 Bonds being used to acquire, construct, install and equip the Facilities.

SECTION 3.06. Plans and Specifications. The Company may revise the Plans and Specifications, which revisions may add structures, equipment, fixtures and machinery not described in Exhibit A hereto, and which revisions may effect modifications 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 change amounting to \$100,000 or more, (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 2002 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.

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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 Costs of the Project 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 2002 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 2002 Bonds under the Indenture. The Authority hereby agrees to make a loan to the Company in the principal amount of \$25,000,000, such amount being equal to the aggregate principal amount of the 2002 Bonds, and the deposit by the Authority of the proceeds of the sale of the 2002 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.

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 2002 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 2002 Bonds; plus (y) the principal amount of the 2002 Bonds, if any, maturing on such date; plus (z) the principal amount of and premium, if any, on the 2002 Bonds, if any, to be redeemed on such date; and (ii) on any date on which the 2002 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 2002 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

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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 2002 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 2002 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 2002 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 2002 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:

(i) to the Authority on the date of issuance and delivery of the 2002 Bonds, a loan closing fee of \$20,000 and a \$2,000 application fee, 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

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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 2002 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 2002 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 corporate office in Philadelphia, Pennsylvania or Charlotte, North Carolina, 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.

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.

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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 2002 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 2002 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 2002 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 necessary 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 2002 Bonds. The Authority further covenants that it will not voluntarily or knowingly take or fail to

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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 2002 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.

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 2002 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 2002 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 2002 Bonds during any period when such Bonds are held by a "substantial user" of the Facilities financed by the 2002 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 2002 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 2002 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 2002 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.

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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 and used to purchase replacements for the Moveable Property sold or disposed of pursuant to this Section 6.01(a) or within six (6) months of the date of issuance of the 2002 Bonds, to finance any other capital expenditure.

(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 2002 Bonds from gross income of the holders thereof from federal income tax purposes; provided, however, that if in connection with such proposed sale, assignment or lease of the Facilities or a portion thereof, the Company shall, within sixty (60) days of such sale, assignment or lease, replace such Facilities or such portion thereof with property which, in the judgment of the Trustee, is substantially similar to the Facilities being sold, assigned or leased, then the Company shall not be required to furnish a Favorable Opinion pursuant to this

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subsection (f) and, upon such replacement, such property shall be deemed to constitute the Facilities hereunder.

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:

(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 (i) and (ii) 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

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(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.

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 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,

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together with all other amounts due from the Company then accrued and unpaid, shall become immediately due and payable; and

(b) 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 2002 Bonds shall have been accelerated pursuant to the Indentures, the consent of the holders of a majority in principal amount of the 2002 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 2002 Bonds, no consent of the Trustee shall be required, and the Authority shall be obligated to waive the Company's default hereunder.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. Termination. This Agreement shall terminate upon payment in full of the 2002 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 2002 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.

(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, reasonable legal fees and expenses 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 2002 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 reasonable 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, reasonable 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 2002 Bonds, the Indenture or any other document or instrument delivered in connection with the issuance of the 2002 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

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any of the 2002 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.

(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 2002 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

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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 the 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.

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 2002 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 2002 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 2002 Bonds or implied therefrom.

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SECTION 8.11. Reorganization; Liquidation.

The Company hereby agrees that any reorganization or liquidation plan with respect to the Company must be acceptable to the Bond Insurer.

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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.

BUCKS COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: Harry W. Fawkes

Chairman

PENNSYLVANIA SUBURBAN
WATER COMPANY

By: 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)

The Facilities consist of, generally, facilities for the furnishing of water that are part of the Company's system for the collection, treatment and distribution of water to its customers, including pipelines, reservoirs, wells and related equipment and facilities as follows:

Berks County Project: Replacement of water main from Cold Run Rd to Mill Rd, Robeson Township.

Bucks County Project: A. Replace of water mains from/in: Church St to State Rd to Maryland Ave, Bristol Borough; Fayette Dr from Old Orchard Lane to New Chestnut and Fayette Dr to Bath Rd, Bristol Township; Neshaminy Rd from Newportville Rd to Bristol Pike, Bristol Township; Schumacher Ave to Teasdale Rd and Temple Rd, Bristol Township; and Hartel St from Runway Rd to Headly St, Bristol Township; B. upgrade existing wells at Edgely and Old Bristol Rds, Bristol Township; and C. replace front substation and replace "B" pump motor at Neshaminy Plant, 2525 West Lincoln Highway, Oakford, Lower Southampton Township.

Chester County Project: A. Replace water mains from/in: Walnut Ave to 1st St, Easttown Township; Icedale, from Tulip Dr to Lilac Dr, Honey Brook Township; Springton Court Trailer Park, West Brandywine Township; Rt 100 from Cedar Rd to Rt 401, West Brandywine Township; Barnard St from New St to Brandywine St, West Chester Borough; West Lafayette St from High St to New St, West Chester Borough; Rosedale Ave from South New St to Cambridge Rd, West Goshen Township; Stanton Rd from South Walnut Rd to Oakbourne Rd, Westtown Township; Old Lincoln Highway from Village to Central Ave, Willistown Township; B. tie-in water mains from/in: Rt 926 from New St to Birmingham Rd, Birmingham Township; Dilworthtown Rd to Penn Oaks Country Club, Thornbury Township; Ship Rd from Hunters La to Gary Terrace, West Whiteland Township; C. construct additional water tank at Parsons Rd, Echo Hill Development, Franklin Township; D. construct well facility at Newark New London Rd, Franklin Township; E. construct internal improvements at Pickering Creek Plant East, 1050 Valley Forge Rd, Schuylkill Township; F. construct booster station at Eagle, Upper Uwchlan Township; and G. construct water tank and booster station at Rt 82, 740 Unionville Rd, East Marlborough Township.

Delaware County Project: A. Replace water mains from/in: Darby Rd, from Golfview Ave to Hill Crest Rd, Haverford Township; Lansdowne Ave, from Drexel Ave to Balfour Circle, Lansdowne Borough; Media Line Rd, from Old Cedar Grove Rd to Penn View Ave, Newtown Township; Gulph Creek Rd, from King of Prussia Rd to Cricket Rd, Radnor Township; North Ave, from Providence Rd to Bellvue Ave, Springfield Township; Leamy Ave, from Springfield Rd to Forest Ln, Springfield Township; Woodland Ave, from Powell Rd to Barker Rd, Springfield Township; 3rd Ave, from Powhattan Dr to Seminole St, Tinicum Township; 1st St, from LaGrange Ave to Poulson Ave, Tinicum Township; Beverly Blvd, from Summit Ave to Keystone Ave, Upper Darby Township; Childs Ave, from Township Line Rd to Dermond Ave, Upper Darby Township; State Rd, from Hilltop Rd to Sellers Ave, Upper Darby Township; Bailey Rd, from Lansdowne Ave to Wycombe Ave, Yeadon Borough; B. tie-in water mains from: Paxon Hollow Rd, from Bridlebrook Ln to Trout Dr, Marple Township; Bullens Ln, from Providence Rd to Chester Rd, Nether Providence Township; C. clean and line water mains from: Lincoln Ave to Eagle Rd, Haverford Township; Earlington Rd to Poplar Rd, Haverford Township; Winding Way to Newtown Rd, Newtown Township; Blanchard Rd to Burmont Rd,

Upper Darby Township; Glenwood Ave to Providence Rd, Upper Darby Township; Highland Ave to Windermere Ave, Upper Darby Township; D. install water mains from Bullens Ln to Westminster Dr, Nether Providence; E. tie-in water mains from/in: Gradyville Rd to Somerset Ave, Newtown Township; F. install booster pipeline in Media Line Rd, Newtown Township; G. install regulators at Industrial Highway (Rt. 921) at Stewart Ave, Ridley Township; H. interconnect water main from Industrial Highway (Rt. 921) and SEPTA Airport line overpass to the former Tincum Island Rd, Tincum Township; I. construct booster station at Beatty Rd, Media Borough; J. install inverters for sendout pumps, install basin outlet troughs, install flocculators and baffles, and install chlorine scrubbers at Ridley Plant, 1200 Baltimore Pk, Middletown Township; K. upgrade booster station at Baltimore Pike and West Ave, Springfield Township; and L. replace pumps "E", "C" and "A" at Crum Creek Plant, 925 Beatty Rd, Springfield Township.

Montgomery County Project: A. Replace water mains from/in: Huntingdon Pk, from Old Huntingdon Pk to Fox Chase Rd, Abington Township; Tyson Ave, from Bruce Ave to Edge Hill Rd, Abington Township; Jenkintown Rd, from Forrest Ave to Cedar St, Abington Township; Old York Rd, from Susquehanna Rd to railroad tracks south of The Fairway, Abington Township; Cadwalder Rd, from Church Rd to Township Line, Cheltenham Township; Huber St, from Carmel Ave to Railroad Ave, Cheltenham Township; Wynnewood Rd, from Winchester Rd to City Line Ave, Lower Merion Township; Washington Ln, from Welsh Rd to north of Hydrant 47-48, Lower Merion Township; Haverford Rd, from Montgomery Ave to Shirley Ave, Narberth Borough; Bridget St, from Ehrenport to Bruce St, Springfield Township; County Line Rd, from Gulph Rd to Quarry Rd, Upper Merion Township; B. tie-in water mains from/in: Pine Rd, from Lamplighter Rd to Byberry Ave, Lower Merion Township; Henderson Rd to Hanse Rd, Upper Merion Township; C. clean and line water mains from: Wharton Rd to Keswick Ave, Abington Township; Warwick Rd to Wingate Rd, Lower Merion Township; Church Rd to Malinda Rd, Springfield Township; D. relocate water main from Rt 202 to I-76, Upper Merion Township for PennDot Rt 202 construction; E. replace and relocate water main at Bethlehem Pike over RR tracks between Summit Ave and Lafayette Ave., Whitemarsh Township for PennDot bridge construction; F. replace and relocate water main from SR73 to Church Rd, Abington Township for PennDot road reconstruction; G. extend water main to Church Rd at Willow Grove Ave, Abington Township; H. relocate water mains in SR-73 to Township Line Rd, Cheltenham Township for PennDot road reconstruction; I. interconnect water main in Cheltenham Ave from Vernon St to the Cheltenham booster station, Cheltenham Township; J. upgrade Scada system at 762 Lancaster Ave, Lower Merion Township; K. construct two additional wells on Myers Tract #1 & #2, Perkiomen Township; and L. construct water tank and booster station Perkiomen Township; 2516 Damian Dr, Upper Moreland Township.

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.

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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

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CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2002 of Philadelphia Suburban Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
August 12, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2002 of Philadelphia Suburban Corporation (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David P. Smeltzer

David P. Smeltzer
Senior Vice President - Finance and Chief Financial Officer
August 12, 2002