

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

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

For the fiscal year ended December 31, 2002 Commission File number 1-6659

PHILADELPHIA SUBURBAN CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1702594

(State or other jurisdiction of
incorporation or organization)

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

762 W. Lancaster Avenue, Bryn Mawr, Pennsylvania

19010-3489

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(610)-527-8000

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

Title of each class

Name of each exchange on
which registered

Common stock, par value \$.50 per share

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Section 12(b)-2 of the Securities Exchange Act of 1934).

Yes No
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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2002. \$1,162,063,479

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by June 28, 2002, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of each of the registrant's classes of common stock as of March 3, 2003.
68,034,808

Documents incorporated by reference

(1) Portions of registrant's 2002 Annual Report to Shareholders have been incorporated by reference into Parts I and II of this Form 10-K Report.

(2) Portions of the Proxy Statement, relative to the May 15, 2003 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K Report.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- o projected capital expenditures and related funding requirements;
- o developments and trends in the water and wastewater utility industries;
- o dividend payment projections;
- o opportunities for future acquisitions and success of pending acquisitions;
- o the capacity of our water supplies and facilities;
- o the development of new services and technologies by us or our competitors;
- o the availability of qualified personnel;
- o general economic conditions;
- o acquisition-related costs and synergies; and
- o the forward-looking statements contained under the heading "Forward-Looking Statements" in the section entitled "Management's Discussion and Analysis" from the portion of our 2002 Annual Report to Shareholders incorporated by reference herein and made a part hereof.

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

- o changes in general economic, business and financial market conditions;
- o changes in government regulations and policies, including environmental and public utility regulations and policies;
- o changes in environmental conditions, including those that result in water use restrictions;

- o abnormal weather conditions;
- o changes in capital requirements;
- o changes in our credit rating;

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- o our ability to integrate businesses, technologies or services which we may acquire;
- o our ability to manage the expansion of our business;
- o the extent to which we are able to develop and market new and improved services;
- o the effect of the loss of major customers;
- o our ability to retain the services of key personnel and to hire qualified personnel as we expand;
- o unanticipated capital requirements;
- o increasing difficulties in obtaining insurance and increased cost of insurance;
- o cost overruns relating to improvements or the expansion of our operations; and
- o civil disturbance or terroristic threats or acts.

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

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PART I

Item 1. Business

The Company

Philadelphia Suburban Corporation (referred to as "we" or "us") is the holding company for regulated utilities providing water or wastewater services to approximately 2 million people in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. Our two primary subsidiaries are Pennsylvania Suburban Water Company, a regulated public utility that provides water or wastewater services to approximately 1.3 million residents in the suburban areas north and west of the City of Philadelphia and in 18 other counties in Pennsylvania, and Consumers Water Company, a holding company for several regulated public utility companies that provide water or wastewater service to approximately 700,000

residents in various communities in Ohio, Illinois, New Jersey and Maine. Other of our smaller subsidiaries provide water or wastewater services in parts of Pennsylvania, North Carolina and Ohio. Some of our subsidiaries provide wastewater services to a population of approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina. In addition, we provide water and wastewater service to approximately 45,000 people through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. We are the largest U.S.-based investor-owned water utility based on number of customers.

The following table indicates by state our number of customers served and operating revenues for the year ended December 31, 2002:

	Operating Revenues (000's)	Number of Customers Served
Pennsylvania	\$ 225,080	410,752
Ohio	38,848	86,535
Illinois	29,420	64,385
New Jersey	16,743	39,393
Maine	8,969	16,913
North Carolina	2,968	8,808
	\$ 322,028	626,786

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Item 1, Continued

The following table indicates by customer class our number of customers served and operating revenues for the year ended December 31, 2002:

Customer class	Operating Revenues (000's)	Number of Customers Served
Residential water	\$ 197,190	535,506
Commercial water	55,962	30,355
Industrial water	17,221	1,423
Other water	36,255	16,466
Wastewater	8,210	21,724
Operating contracts and other	7,190	21,312
	\$ 322,028	626,786

Our customer base is diversified among residential, commercial, industrial and wastewater customers. Residential customers make up the largest component of our customer base, with these customers representing approximately two-thirds of our total water revenues. Substantially all of our water customers are metered, which allows us to measure and bill for our customers' water consumption. Water consumption per customer is affected by local weather conditions during the year, especially during the late spring and early summer. In general, during these seasons, an extended period of dry weather increases consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. On occasion, abnormally dry weather in our service areas can result in governmental authorities declaring drought warnings and water use restrictions in the affected areas, which could reduce water consumption. See "Water Supplies and Water Facilities" for a discussion of water use restrictions that may impact water consumption during abnormally dry weather. The geographic

diversity of our customer base reduces our exposure to extreme or unusual weather conditions in any one area of our service territory.

The growth in revenues over the past three years is a result of increases in the customer base and in water rates. Excluding customers added through acquisitions and other growth ventures, during the three-year period of 2000 through 2002, our customer base grew at an annual compound rate of 0.9%. Including acquisitions and other growth ventures, our customer base increased at an annual compound rate of 4.0% during this period. The customer growth rate in 2002 was 4.0%. Our business combination with Consumers Water Company in 1999 has enabled us to grow through acquisitions in the areas where Consumers operates, while continuing to grow through acquisitions in southeastern Pennsylvania. Subsequently, we entered another new state, North Carolina, in 2000.

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Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also obtain our SEC filings from the SEC's website at <http://www.sec.gov>.

Our internet website address is <http://www.suburbanwater.com>. We make available free of charge through our internet website's Investor Relations page all of our filings with the SEC, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other information. These reports and information are available as soon as reasonably practicable after such material is electronically filed or furnished to the SEC.

Acquisitions and Water Sale Agreements

With more than 50,000 community water systems in the U.S. (84% of which serve less than 3,300 customers), the water industry is the most fragmented of the major utility industries (telephone, natural gas, electric and water). The nation's water systems range in size from large municipally-owned systems, such as the New York City water system that serves approximately 9 million people, to small systems, where a few customers share a common well. In the states where we operate, we believe there are over 8,700 public water systems of widely varying size, with the majority of the population being served by government-owned water systems.

Although not as fragmented as the water industry, the wastewater industry in the U.S. also presents opportunities for consolidation. According to the U.S. Environmental Protection Agency's ("EPA") most recent survey of publicly-owned wastewater treatment facilities in 1996, there are approximately 16,000 such facilities in the nation serving approximately 72% of the U.S. population. The vast majority of wastewater facilities are government-owned rather than privately-owned. The EPA survey also indicated that there are approximately 3,500 wastewater facilities in operation or planned in the six states where we operate.

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

- o the benefits of economies of scale;
- o increasingly stringent environmental regulations;
- o the need for capital investment; and
- o the need for technological and managerial expertise.

We are actively exploring other opportunities to expand our utility

operations through acquisitions or otherwise. As of December 31, 2002, exclusive of the Consumers Water Company merger, we had completed 92 acquisitions or other growth ventures during the past five years. These transactions have added, as of December 31, 2002, approximately 75,400 customers to our customer base during this five-year period.

Item 1, Continued

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

Water Supplies and Water Facilities

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

- o Suburban Philadelphia - The principal supply of water is surface water from eight rural streams, two rivers (Schuylkill River and Delaware River), and the Upper Merion Reservoir, a former quarry now impounding groundwater. Wells and interconnections with adjacent municipal authorities supplement these surface supplies.
- o Pennsylvania (other than suburban Philadelphia) - The Roaring Creek Division draws its water from a man-made lake within a 12,000 acre watershed and two wells also located in the watershed. The Susquehanna Division obtains its water supply from wells. The Shenango Division draws its water from the Shenango River. The Waymart Division's water supply is obtained from wells.
- o Ohio - Water supply is obtained for customers in Lake County from Lake Erie. Customers in Mahoning County obtain their water from man-made lakes and the Ashtabula division is supplied by purchased water. Water supply is obtained for customers in Stark and Summit Counties from wells. In Trumbull County, customers are served through an interconnection from our Pennsylvania division.
- o Illinois - Water supply is obtained for customers in Kankakee County from the Kankakee River and satellite wells, while customers in Vermilion County are supplied from Lake Vermilion. In Will, Lee, Boone, Lake and Knox counties, our customers are served from wells.
- o New Jersey - Water supply in our three non-contiguous divisions is obtained principally from wells and is supplemented with purchased water in two divisions.
- o Maine - Eleven non-contiguous water systems obtain their water supply as follows: five systems use groundwater, five systems use surface water and one system purchases water from a neighboring municipal district.
- o North Carolina - Water supply in 166 non-contiguous divisions is obtained principally from wells, with 5 divisions purchasing water from neighboring municipalities.

We believe that the capacities of our sources of supply, and our water treatment, pumping and distribution facilities are generally sufficient to meet the present requirements of our customers. We make system improvements and additions to capacity in response to changing regulatory standards, changing patterns of consumption and increased demand from a growing number of customers.

Item 1, Continued

The various state public utility commissions have recognized the operating and capital costs associated with these improvements in setting water rates.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because nonessential and recreational use of water is at its highest during the summer months. At other times of the year, 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 nonessential water use. In June and July 2002, drought restrictions were relaxed in three of the five counties we serve in southeastern Pennsylvania where approximately 275,000 of our customers are located, moving from drought emergency mandatory restrictions to a drought warning voluntary restrictions. However, by early September 2002, the Commonwealth of Pennsylvania had reinstated the drought emergency in the three counties where restrictions had been relaxed because of hot, dry weather in August. In November and December 2002, the Commonwealth of Pennsylvania removed the drought restrictions in the counties we serve in Pennsylvania. Water use restrictions were also imposed and relaxed at various times during 2002 in our service territories in New Jersey.

Economic Regulation

Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service and authorize the issuance of securities. The regulatory commissions also establish uniform systems of accounts and approve the terms of contracts with affiliates and customers, business combinations with other utility systems, loans and the sales of property. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. Accordingly, we maintain a rate case management capability to provide that the tariffs of our utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. We are subject to regulation by the following state regulatory commissions:

State -----	Regulatory Commission -----
Pennsylvania	Pennsylvania Public Utility Commission
Ohio	The Public Utilities Commission of Ohio
Illinois	Illinois Commerce Commission
New Jersey	New Jersey Board of Public Utilities
Maine	Maine Public Utilities Commission
North Carolina	North Carolina Utilities Commission

Rates for some divisions of our Ohio water utility can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utilities Commission of Ohio. Currently, two of the six regulated divisions in Ohio are operating under such rate ordinances.

Item 1, Continued

The Pennsylvania Public Utility Commission ("PAPUC") permits Pennsylvania water utilities to add an infrastructure replacement surcharge, known as the Distribution System Improvement Charge ("DSIC"), to their water bills. The revenues earned from the surcharge offsets the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating distribution systems. In general, the capital expenditures are associated with projects that are non-revenue producing, non-expense reducing replacements and distribution system improvements. Prior to the DSIC, water utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in base rates is known as regulatory lag. The DSIC is intended to eliminate or reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems. The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. The DSIC may never exceed 5% of the base rates in effect. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective. The PAPUC also limits use of the DSIC to periods when a company's return on equity is less than a benchmark the PAPUC establishes each quarter.

In 2001, the Illinois Commerce Commission issued regulations implementing an infrastructure surcharge mechanism known as a Qualifying Infrastructure Plant Surcharge ("QIPS") for use by Illinois water and wastewater utilities. QIPS is similar to DSIC, however, it is established annually and prospectively based on anticipated qualifying capital expenditures, and it includes a broader range of qualifying capital expenditures, including certain wastewater capital expenditures. Our Illinois operating subsidiary received approval to add a QIPS to its bills in three of its operating divisions beginning January 1, 2002. In February 2003, infrastructure surcharge replacement legislation was introduced in the State of Ohio. We are currently working to establish similar mechanisms in the other states in which we operate.

In general, we believe that Philadelphia Suburban Corporation and its subsidiaries have valid authority, free from unduly burdensome restrictions, to enable us to carry on our business as presently conducted in the franchised or contracted areas we now serve. The rights to provide water or wastewater service to a particular franchised service territory are generally non-exclusive, although the applicable regulatory commissions usually allow only one utility to provide service to a given area. In some instances, another water utility provides service to a separate area within the same political subdivision served by one of our subsidiaries. In the states where our subsidiaries operate, it is possible that portions of our subsidiaries' operations could be acquired by municipal governments by one or more of the following methods:

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

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

Item 1, Continued

In December 2002, as a result of the settlement of a condemnation action, our Ohio operating subsidiary sold to Ashtabula County, Ohio its water utility assets in the unincorporated areas of Ashtabula County and the area

within the Village of Geneva on the Lake for approximately \$12,118,000, which was in excess of the book value for these assets. The sale resulted in the recognition in the fourth quarter of 2002 of a gain on the sale of these assets, net of expenses, of \$5,676,000 or an after-tax gain of \$3,690,000 (or \$0.05 per share). We continue to operate this water system for Ashtabula County under a one-year operating contract that began upon the closing of the sale that should provide over \$300,000 in operating revenues in 2003. The water utility assets sold represent less than 1% of our total assets, and the total number of customers included in the water system sold represents less than 1% of our total customer base. In addition to the operating contract revenues, the interest savings associated with paying off debt with the sale's proceeds will offset the loss of this water system's normal contribution to income.

As part of the Ashtabula County condemnation, the adjacent City of Geneva in Ashtabula County, Ohio, passed an ordinance seeking authorization to condemn the assets of our Ohio operating subsidiary that are located in Geneva. The issue was submitted to a referendum in 2000, whereby voters affirmed the ordinance by a margin of 16 votes. The City engaged a consulting firm to assist it in valuing the assets that may be condemned. In December 2002, the City of Geneva filed a condemnation action. We believe that our Ohio operating subsidiary will be entitled to fair market value for its assets, which we believe will be in excess of the book value for these assets and may approximate the multiple to book value of other recent industry business combinations. The total number of customers included in the Geneva system represents approximately 0.4% of our total customer base. Despite these events in Ashtabula, Ohio, our strategy continues to be to acquire additional water and wastewater systems, maintain our existing systems, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Environmental Regulation

The provision of water and wastewater services is governed primarily by the federal Safe Drinking Water Act, the Clean Water Act and related state laws, and state and federal regulations issued under these laws by the Environmental Protection Agency and state environmental regulatory agencies. These laws and regulations establish criteria and standards for drinking water and for discharges into the waters of the United States. The states may have the right to establish criteria and standards that are stricter than those established by the Environmental Protection Agency. In addition, we are subject to federal and state laws and other regulations relating to residual waste disposal, dam safety and other operations of our subsidiaries.

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

Safe Drinking Water Act - The Safe Drinking Water Act establishes criteria and procedures for the Environmental Protection Agency to develop national quality standards for drinking water. Regulations issued pursuant to the Safe Drinking Water Act set standards on the amount of certain microbial and chemical contaminants and radionuclides allowable in drinking water. The 1996 Amendments to the Safe Drinking Water Act require the Environmental Protection Agency to

Item 1, Continued

analyze both the benefits and the costs of compliance when considering new or stricter water quality standards. The 1996 amendments to the Safe Drinking Water Act also prescribe testing for certain additional substances and propose establishing future rules that may change standards for water treatment. Current requirements under the Safe Drinking Water Act are not expected to have a material impact on our operations or financial condition as we have already made investments to meet existing water quality standards. We may, in the future, be required to change our method of treating drinking water at certain sources of supply if additional regulations become effective. The cost of maintaining compliance with new rulemakings is expected to be recoverable in water rates and is not expected to have a material impact on our results from operations or

financial condition.

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

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

In order to eliminate or inactivate microbial organisms, the Surface Water Treatment Rule and the Interim Enhanced Surface Water Treatment Rule were issued by the EPA to improve disinfection or filtration. The EPA developed the Disinfectants-Disinfection By-products Rule to reduce consumers' exposure to disinfectants and by-products of the disinfection process. In 1998, the EPA issued new rules on disinfection and on surface water treatment. All affected water systems are in compliance with these rulemakings as of the date that this report is filed, including the additional provisions that became effective in January 2002. Groundwater and smaller surface water systems have until December 2003 to comply with the rules on disinfection and on surface water treatment. We have developed a new groundwater source to replace a small, unfiltered surface water system, and in the future may be required to install filtration for a surface water supply. Certain small groundwater systems could be reclassified as being influenced by surface water. This may require additional treatment or the development of replacement sources of supply over time, and is not expected to exceed \$5 million. It is expected that these capital expenditures would be recoverable in water rates and would represent a small portion of our typical annual capital expenditures.

We conduct water quality monitoring for a variety of regulated and unregulated contaminants. In the course of this monitoring, contaminants may be identified that may prompt us to take a water supply source out of service or add treatment at the water supply source. Where a source of contamination can be identified, we pursue recovery of the associated costs from responsible parties. In April 2000, the gasoline additive Methyl tert-Butyl Ether ("MtBE") was

Item 1, Continued

discovered in our New Jersey operating subsidiary production well at levels exceeding the New Jersey drinking water standard. The well was immediately taken out of service and alternate water supplies were obtained. The alternate supplies include existing wells and an interconnection with an adjacent utility, and are an interim measure until a permanent, long-term solution could be implemented. The New Jersey Department of Environmental Protection identified the source of the MtBE as a nearby gasoline station. The company responsible for the contamination has reimbursed us for a substantial portion of the expenses incurred to-date. We continue to pursue developing a long-term replacement supply and based on various studies we believe an alternate water system will be needed. The company responsible for the contamination believes the original well can be cleaned and rehabilitated. As a result of these differences, we have taken legal action seeking reimbursement for the costs associated with obtaining an alternate water system. We expect to recover these costs.

In January 2001, the EPA issued a final rule for arsenic that lowers the limit to a more stringent level effective by 2006, with a provision for

further time extensions for small systems. Currently, two small well systems slightly exceed the new arsenic levels and will require additional treatment. The cost of maintaining compliance with new rulemakings is expected to be recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

Clean Water Act - The Clean Water Act regulates discharges from drinking water and wastewater treatment facilities into lakes, rivers, streams, and groundwater. We operate numerous water and wastewater facilities in a number of states. It is our policy to obtain and maintain all required permits and approvals for the discharge from these water and wastewater facilities, and to comply with all conditions of those permits and other regulatory requirements. We maintain a program to monitor our facilities for compliance with permitting, monitoring and reporting for wastewater discharges. From time to time, violations may occur which may result in fines. However, such violations or fines are not expected to have a material impact on our results of operations or financial condition. Additional capital expenditures and operating costs in connection with the management and disposal of discharges from our water and wastewater facilities may be required in the future, particularly if changes are made in the requirements of the applicable Federal or state laws. We believe that these capital expenditures would be recoverable in our rates.

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

Item 1, Continued

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

In Pennsylvania, the Department of Environmental Protection has recently adopted the use of a new formula for determining the magnitude of the Probable Maximum Flood. We are studying our dams to determine what improvements may be needed to our dams as a result of this new calculation. As a result of the initial results of the studies, we have identified three dams that could require capital improvements of approximately \$7 million in aggregate. We believe that these capital expenditures that could be required by the new formulas would be recoverable in our rates. In Ohio, the Department of Environmental Resources has adopted the use of the new formula. We are studying our dams in Ohio to determine the required improvements. Based on the preliminary results, we believe that capital expenditures of approximately \$3.6 million in aggregate will be required on three dams in Ohio over the next four years.

Employee Relations

As of December 31, 2002, we employed a total of 971 full-time employees. Our subsidiaries are parties to 11 agreements with labor unions covering 454 employees. One of the agreements expired December 2001, two agreements expired

in October 2002, and the balance of the agreements are due to expire between March 2003 and August 2004. The expired agreements cover 45 employees and the employees covered by these agreements continue to work under the expired agreements. Negotiations with the unions representing these employees are ongoing and we expect to reach new agreements.

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.

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Item 1, Continued

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 and regulations are complex and change frequently. These laws, and the enforcement thereof, have tended to become more 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 irrigation systems, swimming pools, cooling 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 normal, or if

there is more rainfall than normal, 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.

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Item 1, Continued

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. It is our intent, when practical, 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.

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, chemicals in groundwater systems, pollution resulting from man-made sources and possible terrorist attacks. 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 and may be recoverable in rates. 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.

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.

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Item 1, Continued

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.

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Item 2. Properties.

Our properties consist of transmission and distribution mains and conduits, water and wastewater treatment plants, pumping facilities, wells, tanks, meters, supply lines, dams, reservoirs, buildings, vehicles, land, easements, rights and other facilities and equipment used for the operation of our systems, including the collection, treatment, storage and distribution of water. Substantially all of our properties are owned by our subsidiaries and are subject to liens of mortgage or indentures. These liens secure bonds, notes and other evidences of long-term indebtedness of our subsidiaries. For certain properties that we acquired through the exercise of the power of eminent domain and certain other properties we purchased, we hold title for water supply purposes only. We own, operate and maintain approximately 7,590 miles of transmission and distribution mains, 19 water treatment plants and 18 wastewater treatment plants. Some properties are leased under long-term leases. The following table indicates our net utility plant as of December 31, 2002 by state:

	Net Property, Plant and Equipment (000's)
Pennsylvania	\$1,067,934
Ohio	153,906
Illinois	134,413
New Jersey	87,258
Maine	37,022
North Carolina	13,637
Inter-company eliminations and other	(3,329)

	\$1,490,841
	=====

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

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

Item 3. Legal Proceedings

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

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

No matters were submitted to a vote of security holders during the fourth quarter of 2002.

Executive Officers of the Registrant

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

PART II

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

Our common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 3, 2003, there were approximately 21,600 holders of record of our common stock.

The following table shows the high and low intraday sales prices for our common stock as reported on the New York Stock Exchange composite transactions reporting system and the cash dividends paid per share for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year

2002					
Dividend paid per common share	\$0.1325	\$0.1325	\$0.1325	\$0.1400	\$0.5375
Price range of common stock					
- high	24.61	25.00	20.30	21.87	25.00
- low	21.10	18.49	16.02	19.30	16.02

2001					
Dividend paid per common share	\$ 0.124	\$ 0.124	\$ 0.124	\$0.1325	\$0.5045
Price range of common stock					
- high	19.39	20.40	23.28	24.64	24.64
- low	15.65	16.60	18.66	20.80	15.65

We have paid common dividends consecutively for 58 years. Effective December 1, 2002, our Board of Directors authorized an increase of 5.7% in the dividend rate over the amount Philadelphia Suburban Corporation has historically paid. As a result of this authorization, beginning with the dividend payment in December 2002, the annual dividend rate increased to \$0.56 per share. We presently intend to pay quarterly cash dividends in the future, on March 1, June

1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the Consumers Water Company pooling, our common dividends paid have averaged 61.3% of net income.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of our 2002 Annual Report to Shareholders filed as Exhibit 13.10 to this Form 10-K Report is incorporated by reference herein.

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

The information appearing in the section captioned "Management's Discussion and Analysis" from the portions of our 2002 Annual Report to Shareholders filed as Exhibit 13.10 to this Form 10-K Report is incorporated by reference herein.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases include a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2002, the debt maturities by period, in thousands of dollars, and the weighted average interest rate for fixed-rate, long-term debt are as follows:

	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Long-term debt (fixed rate)	\$34,265	\$40,423	\$41,447	\$17,072	\$15,953	\$468,015	\$617,175	\$660,436
Weighted average interest rate	6.81%	6.27%	7.12%	6.96%	6.56%	6.51%	6.56%	

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available-for-sale" marketable equity securities. As of December 31, 2002, our carrying value of marketable equity securities was \$1,336,000, which reflects the market value of such securities. The market risks that we are exposed to are consistent with the risks that we were exposed to in the prior year.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income and Comprehensive Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" "Consolidated Statements of Capitalization" and "Notes to Consolidated Financial Statements" from the portions of our 2002 Annual Report to Shareholders filed as Exhibit 13.10 to this Form 10-K Report is incorporated by reference herein. Also, the information appearing in the section captioned "Reports on Financial Statements" from the portions of our 2002 Annual Report to Shareholders filed as Exhibit 13.10 to this Form 10-K Report is incorporated by reference herein.

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the section captioned "Information Regarding Nominees and Directors" of the Proxy Statement relating to our May 15, 2003, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Executive Officers of the Registrant

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

Name	Age	Position with the Registrant and date of election (1)
----	---	-----
Nicholas DeBenedictis	57	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Pennsylvania Suburban Water Company (July 1992 to present); President, Philadelphia Suburban Water Company (February 1995 to January 1999) (2)
Morrison Coulter	66	President, Pennsylvania Suburban Water Company - Philadelphia Suburban Division (December 2001 to present); President, Philadelphia Suburban Water Company (January 1999 to December 2001); Senior Vice President - Production, Philadelphia Suburban Water Company (February 1996 to January 1999); Vice President - Production, Philadelphia Suburban Water Company (April 1989 to February 1996) (3)
Richard R. Riegler	56	Senior Vice President - Engineering and Environmental Affairs (January 1999 to present); Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to January 1999) (4)
Roy H. Stahl	50	Executive Vice President and General Counsel (May 2000 to present); Secretary (June 2001 to present); Senior Vice President and General Counsel (April 1991 to May 2000) (5)
David P. Smeltzer	44	Senior Vice President - Finance and Chief Financial Officer (December 1999 to present); Vice President - Finance and Chief Financial Officer (May 1999 to December 1999); Vice President - Rates and Regulatory Relations, Philadelphia Suburban Water Company (March 1991 to May 1999) (6)

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

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

Item 10, Continued

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

and from 1987 to 1989 he was Assistant Vice President - Production. Mr. Coulter has advised us of his intention to retire in 2003.

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

Item 11. Executive Compensation

The information appearing in the sections captioned "Executive Compensation" of the Proxy Statement relating to our May 15, 2003, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Ownership of Common Stock" and "Securities Authorized for Issuance under Equity Compensation Plans" of the Proxy Statement relating to our May 15, 2003, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Certain Relationships and Related Transactions" of the Proxy Statement relating to our May 15, 2003, annual meeting of shareholders, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated herein by reference.

Item 14. Controls and Procedures

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer), we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures within 90 days of the filing date of this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation.

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PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

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

Report of Management

Independent Accountants' Report of PricewaterhouseCoopers LLP - 2002

Consolidated Balance Sheets - December 31, 2002 and 2001

Consolidated Statements of Income and Comprehensive Income - 2002,
2001 and 2000

Consolidated Cash Flow Statements - 2002, 2001, and 2000

Consolidated Statements of Capitalization - December 31, 2002 and 2001

Notes to Consolidated Financial Statements

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

Reports on Form 8-K.

Current Report on Form 8-K filed on December 20, 2002, responding to Item 5, Other Events. (Related to the Company's press release of December 19, 2002 announcing the sale of a portion of the water operations of the Registrant's subsidiary, Consumers Ohio Water Company, to Ashtabula County).

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

Exhibit No.	EXHIBIT INDEX	Page No.
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	-
3.2	By-Laws, as amended (14) (Exhibit 3.2)	-
3.3	Amendment to Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares to 41,770,819 and to provide that 40,000,000 of such shares be shares of Common Stock (14) (Exhibit 3.3)	-
3.4	Amendment to Amended and Restated Articles of Incorporation, as amended, designating the Series B Preferred Stock (14) (Exhibit 3.4)	-
3.5	Amendment to Section 3.03 and addition of Section 3.17 to Bylaws (16) (Exhibits 1 and 2)	-
3.6	Amendment to Amended and Restated Articles of Incorporation, designating the terms of the Series A Junior Participating Preferred Shares (18) (Exhibit 3.6)	-
3.7	Amendment to Amended and Restated Articles of Incorporation, to increase the number of authorized shares to 101,770,819 and to provide that 100,000,000 of such shares be shares of Common Stock (20) (Annex E)	-
3.8	Amendment to Section 3.03 of the Bylaws (23) (Exhibit 3.8)	-
3.9	Amendment to Section 5.05(a) to the Amended and restated Articles of Incorporation (24) (Annex A)	-
3.10	Amendments to Sections 2.01(a), 2.02 and 3.08(b) of the Bylaws (25) (Exhibit 3.10)	-
3.11	Restated Articles of Incorporation (as of May 17, 2001) (27)	-
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The	-

Pennsylvania Company for Insurance on Lives and Granting Annuities (now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)

4.2	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)	-
4.3	Twenty-first Supplemental Indenture dated as of August 1, 1985 (3) (Exhibit 4.2)	-
4.4	Twenty-second Supplemental Indenture dated as of April 1, 1986 (4) (Exhibit 4.3)	-
4.5	Twenty-third Supplemental Indenture dated as of April 1, 1987 (5) (Exhibit 4.4)	-
4.6	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (6) (Exhibit 4.5)	-
4.7	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (7) (Exhibit 4.6)	-
4.8	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (8) (Exhibit 4.12)	-

Exhibit No. -----	EXHIBIT INDEX	Page No. -----
4.9	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	-
4.10	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (9) (Exhibit 4.15)	-
4.11	Twenty-ninth Supplemental Indenture dated as of March 30, 1995 (11) (Exhibit 4.17)	-
4.12	Thirtieth Supplemental Indenture dated as of August 15, 1995 (12) (Exhibit 4.18)	-
4.13	Thirty-first Supplemental Indenture dated as of July 1, 1997 (15) (Exhibit 4.22)	-
4.14	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and BankBoston, N.A., as Rights Agent (21) (Exhibit 4.25)	-
4.15	Thirty-second Supplement Indenture, dated as of October 1, 1999 (22) (Exhibit 4.26)	-
4.16	Thirty-third Supplemental Indenture, dated as of November 15, 1999. (23) (Exhibit 4.27)	-
4.17	Revolving Credit Agreement between Philadelphia Suburban Water Company and PNC Bank National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999. (23) (Exhibit 4.27)	-
4.18	First Amendment to Revolving Credit Agreement dated as of November 28, 2000, between Philadelphia Suburban Water Company and PNC Bank, National Association, First Union National Bank, N.A., Mellon Bank, N.A. dated as of December 22, 1999. (25) (Exhibit 4.19)	-
4.19	Second Amendment to Revolving Credit Agreement dated as of December 18, 2001, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, First Union National Bank, N.A., Fleet National Bank dated as of December 22, 1999. (27) (4.20)	-
4.20	Thirty-fourth Supplemental Indenture, dated as of October 15, 2001. (27) (4.21)	-
4.21	Thirty-fifth Supplemental Indenture, dated as of January 1, 2002. (27) (4.22)	-
4.22	Thirty-sixth Supplemental Indenture, dated as of June 1, 2002. (29) (4.23)	-
4.23	Thirty-seventh Supplemental Indenture, dated as of December 15, 2002.	34
4.24	Credit Agreement dated as of October 25, 2002, between Philadelphia Suburban Corporation and PNC Bank, National Association.	76
4.25	Third Amendment to Revolving Credit Agreement dated as of December 16, 2002, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank dated as of December 22, 1999.	143
4.26	Fourth Amendment to Revolving Credit Agreement dated as of December 24, 2002, between Philadelphia Suburban Water Company (and its successor Pennsylvania Suburban Water Company) and PNC Bank, National Association, Citizens Bank of Pennsylvania, Fleet National Bank, National City Bank dated as of December 22, 1999.	149

Exhibit No. -----	EXHIBIT INDEX	Page No. -----
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	-
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	-
10.3	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (7) (Exhibit 10.4)	-
10.4	Supplemental Executive Retirement Plan, effective December 1, 1989* (7) (Exhibit 10.5)	-
10.5	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)	-
10.6	Employment letter agreement with Mr. Nicholas DeBenedictis* (1) (Exhibit 10.8)	-
10.7	1994 Equity Compensation Plan, as amended by Amendment 1994-1* (13) (Exhibit 10.10)	-
10.8	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (11) (Exhibit 10.12)	-
10.9	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (12) (Exhibit 10.13)	-
10.10	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (12) (Exhibit 10.14)	-
10.11	Amendment 1994-2 to 1994 Equity Compensation Plan, as amended* (14) (Exhibit 10.16)	-
10.12	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997* (14) (Exhibit 10.18)	-
10.13	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (14) (Exhibit 10.19)	-
10.14	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (14) (Exhibit 10.21)	-
10.15	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (14) (Exhibit 10.22)	-
10.16	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (14) (Exhibit 10.23)	-
10.17	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (14) (Exhibit 10.24)	-

Exhibit No. -----	EXHIBIT INDEX	Page No. -----
10.18	First Amendment to Supplemental Executive Retirement Plan* (14) (Exhibit 10.25)	-
10.19	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSEC Securities, Inc., and PaineWebber Incorporated (15) (Exhibit 10.26)	-
10.20	Philadelphia Suburban Corporation Director Deferral Plan* (21) (Exhibit 10.28)	-
10.21	Amendment No. 1 dated as of February 1, 1999 to Agreement among Philadelphia Suburban Corporation, Philadelphia	-

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

Exhibit No.	EXHIBIT INDEX	Page No.
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10.33	Amendment 2000-1 to 1994 Equity Compensation Plan* (24) (Exhibit 10.33)	-
10.34	2001 Annual Cash Incentive Compensation Plan* (26) (Exhibit 10.34)	-
10.35	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and The GMS Group, L.L.C., dated October 23, 2001 (27) (10.35)	-
10.36	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of October 15, 2001 (27) (10.36)	-
10.37	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated August 7, 2001* (27) (10.37)	-
10.38	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated August 7, 2001* (27) (10.38)	-
10.39	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated August 7, 2001* (27) (10.39)	-
10.40	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and David P. Smeltzer, dated August 7, 2001* (27) (10.40)	-
10.41	2002 Annual Cash Incentive Compensation Plan* (28) (Exhibit 10.41)	-
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 (29) (Exhibit 10.42)	-
10.43	Construction and Financing Agreement between the Bucks County	

	Industrial Development Authority and Pennsylvania Suburban Water Company dated as of June 1, 2002 (29) (Exhibit 10.42)	-
10.44	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Pennsylvania Suburban Water Company, and The GMS Group, L.L.C., dated December 19, 2002	155
10.45	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Pennsylvania Suburban Water Company dated as of December 15, 2002	188
10.46	2003 Annual Cash Incentive Compensation Plan*	215
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 1993 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993 (9) (Exhibit 13.1)	-
13.2	Selected portions of Annual Report to Shareholders for the year ended December 31, 1994 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1994 (10) (Exhibit 13.2)	-
13.3	Selected portions of Annual Report to Shareholders for the year ended December 31, 1995 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1995 (13) (Exhibit 13.3)	-

Exhibit No.	EXHIBIT INDEX	Page No.
-----		-----
13.4	Selected portions of Annual Report to Shareholders for the year ended December 31, 1996 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1996 (14) (Exhibit 13.4)	-
13.5	Selected portions of Annual Report to Shareholders for the year ended December 31, 1997 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1997 (18) (Exhibit 13.5)	-
13.6	Selected portions of Annual Report to Shareholders for the year ended December 31, 1998 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1998 (21) (Exhibit 13.6)	-
13.7	Selected portions of Annual Report to Shareholders for the year ended December 31, 1999 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1999 (23) (Exhibit 13.7)	-
13.8	Selected portions of Annual Report to Shareholders for the year ended December 31, 2000 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2000 (25) (Exhibit 13.8)	-
13.9	Selected portions of Annual Report to Shareholders for the year ended December 31, 2001 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2001 (27) (Exhibit 13.8)	-
13.10	Selected portions of Annual Report to Shareholders for the year ended December 31, 2002 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 2002	222
21.	Subsidiaries of Philadelphia Suburban Corporation	271
23.1	Consent of Independent Accountants - PricewaterhouseCoopers LLP	272
24.	Power of Attorney (set forth as a part of this report)	30
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	273
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	274

Notes -
Documents Incorporated by Reference

(1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended

December 31, 1992.

- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.
- (4) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.
- (5) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.
- (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1994.
- (11) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (12) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1995.
- (14) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.
- (15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.
- (16) Filed as an Exhibit to Form 8-K filed August 7, 1997.
- (17) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed on March 17, 1998.
- (18) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1997.
- (19) Filed as Exhibit A to definitive Proxy Statement dated April 7, 1998.
- (20) Filed as an Annex to Registration Statement on Form S-4 filed on September 11, 1998.
- (21) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1998.
- (22) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.
- (23) Filed as Exhibit to Annual Report on Form 10-K for the year ended December 31, 1999.
- (24) Filed as Annex A to definitive Proxy Statement dated April 10, 2000.
- (25) Filed as Exhibit to Annual Report on Form 10-K for the year ended December 31, 2000.
- (26) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

- (27) Filed as Exhibit to Annual Report on Form 10-K for the year ended December 31, 2001.
- (28) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.
- (29) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

PHILADELPHIA SUBURBAN CORPORATION

By /s/ Nicholas DeBenedictis

Nicholas DeBenedictis
President and Chairman

Date: March 26, 2003

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

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

/s/ Nicholas DeBenedictis

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

/s/ David P. Smeltzer

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

/s/ Mary C. Carroll

Mary C. Carroll
Director

/s/ G. Fred DiBona, Jr.

G. Fred DiBona, Jr.
Director

/s/ Richard H. Glanton

/s/ Alan Hirsig

Richard H. Glanton
Director

Alan Hirsig
Director

/s/ John F. McCaughan

/s/ John E. Menario

John F. McCaughan
Director

John E. Menario
Director

/s/ Richard L. Smoot

Richard L. Smoot
Director

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CERTIFICATIONS

I, Nicholas DeBenedictis, Chairman, President and Chief Executive Officer of Philadelphia Suburban Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Philadelphia Suburban Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other

employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ Nicholas DeBenedictis

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

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I, David P. Smeltzer, Senior Vice President - Finance and Chief Financial Officer of Philadelphia Suburban Corporation, certify that:

1. I have reviewed this annual report on Form 10-K of Philadelphia Suburban Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material

weaknesses.

Date: March 26, 2003

/s/ David P. Smeltzer

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

THIRTY-SEVENTH SUPPLEMENTAL
INDENTURE

DATED AS OF DECEMBER 15, 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-SEVENTH SUPPLEMENTAL INDENTURE

THIRTY-SEVENTH SUPPLEMENTAL INDENTURE dated as of December 15, 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 such 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, through a series of mergers, changes of names and successions, J.P. Morgan Trust Company, National Association, became the

successor trustee; such mergers, changes of name and successions 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") and a Thirty-Sixth Supplemental Indenture dated as of June 1, 2002 (the "Thirty-Sixth 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-one 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
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	
2		
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
5.55% Series due 2032	Thirty-Sixth Supplemental	25,000,000

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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COUNTY

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

Eighth Supplemental	5/9/61	-	-	Z-26	17	2526	312	-	-
Eighth Supplemental	5/10/61	1409	225	-	-	-	-	3249	289
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307	169
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310	237
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549	129
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542	315
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687	23
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700	548
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786	96
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010	307
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002	436

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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
Thirty-Sixth Supplemental	6/5/02	2731	1881	5296	356	2448	1862	9593	1416

; and

WHEREAS, the Original Indenture and the Supplemental Indentures indicated below were duly recorded in the Commonwealth of Pennsylvania on the

dates and in the office for the Recording of Deeds for Berks County in the Mortgage Books and at the pages indicated in the following table:

Indenture	Date of Recording	Book	Page
Original	8/16/99	3113	707
Thirty-Second Supplement	10/6/99	3132	1510
Thirty-Third Supplement	11/30/99	3149	1260
Thirty-Fourth Supplement	10/31/01	3421	896
Thirty-Fifth Supplement	1/10/02	3461	417
Thirty-Sixth Supplement	6/4/02	3544	1357

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), and the Thirty-Sixth Supplemental Indenture were also recorded in the Commonwealth of Pennsylvania on the dates and in the office for the Recording of Deeds for the following counties in the Mortgage Books and at the pages indicated in the following table:

Indenture	Bradford			Columbia			Lawrence			Mercer		
	Date of Recording	Book	Page	Date of Recording	Book	Page	Date of Recording	Book	Page	Date of Recording	Book	Page
Thirty-Fifth Supplemental	12/21/01		200115497					1688		744		
Thirty-Sixth Supplemental	07/04/02		200207151									

Indenture	Northumberland			Pike			Schuylkill			Wayne			
	Date of Recording	Book	Page	Date of Recording	Book	Page	Date of Recording	Book	Page	Date of Recording	Book	Page	
Thirty-Fifth Supplemental		1404	246		1909	2328		1413		1		1911	1
Thirty-Sixth Supplemental		1445	028					1584		0259			

; 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, Thirty-Fifth and Thirty-Sixth 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-Seventh Supplemental Indenture, two new series of bonds to be designated "First Mortgage Bonds, 5.15% Series due 2032" (herein referred to as the "5.15% Series due 2032 ") to be limited in aggregate principal amount to \$25,000,000, to bear interest at the rate of 5.15% per annum, and to mature on September 1, 2032, and "First Mortgage Bonds, 3.75% Series due 2010" (herein referred to as the "3.75% Series due 2010" and, together with the 5.15% Series due 2032, the "Bonds"), to be limited in aggregate principal amount to \$3,200,000, to bear interest at the rate of 3.75% per annum, and to mature on June 1, 2010, both series of Bonds to be issued only as registered bonds without coupons and to be dated the date of delivery thereof; and

WHEREAS, in order to finance the cost of cleaning, re-lining and related improvement of pipelines and related equipment and facilities located in the Counties of Delaware, Montgomery and Bucks in Pennsylvania and that are part of the Company's system for the distribution of water to its customers, and related financing costs which are to be financed under a Financing Agreement dated as of December 15, 2002 (the "Financing Agreement") between the Company and the Delaware County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and which are described in Exhibit A thereto (which facilities, 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 are referred to as 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 A of 2002 in the aggregate principal amount of \$25,000,000 (the "Authority Series A Bonds"); and

WHEREAS, the Authority previously issued its Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1992 (the "1992 Bonds"), of which \$[3,200,000] are currently outstanding to finance a project (the "1980 Refunding Project") involving the refunding of the Authority's Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series A of 1980 (the "1980 Bonds") in the aggregate principal amount of \$8,000,000 which were issued to finance certain facilities for the furnishing of water on behalf of Philadelphia Suburban Water Company (predecessor to the Company);

WHEREAS, the Company previously issued its bonds of the 6.50% Series due 2010 (the "6.50% Series due 2010") under the Twenty-Seventh Supplemental Indenture to secure the obligations of the Company to pay the costs of the 1980 Refunding Project; and

WHEREAS, in order to finance the refunding of the 1992 Bonds, the Company has requested the Authority to issue a new series of bonds to be known as the Authority's Water Facilities Revenue Refunding Bonds (Pennsylvania Suburban Water Company Project), Series B of 2002 in the aggregate principal amount of \$3,200,000 (the "Authority Series B Bonds" and, together with the Authority Series A Bonds, the "Authority Bonds"); and

WHEREAS, in connection with the refunding of the 1992 Bonds, the 6.50% Bonds due 2010 will be cancelled; and

WHEREAS, the Company proposes to issue the 5.15% Series due 2032 and the 3.75% Series due 2010 under the provisions of Article IV of the Original Indenture, and will comply with the provisions thereof as well as with other provisions of the Original Indenture and indentures supplemental thereto in connection with the issuance of additional bonds so that it will be entitled to procure the authentication and delivery of the Bonds; and

WHEREAS, the Authority Bonds are to be issued under a Trust Indenture, dated as of December 15, 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 of the Trustee, 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 the 5.15% Series due 2032 and the 3.75% Series due 2010 (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Thirty-Seventh Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Thirty-Seventh Supplemental Indenture) and has further duly authorized the execution, delivery and recording of this Thirty-Seventh Supplemental Indenture setting forth the terms and provisions of the Bonds insofar as said terms and provisions are not set forth in said Original Indenture; and

WHEREAS, the Bonds and the Trustee's certificate upon said Bonds are to be substantially in the following form - the proper amount, names of registered owners and numbers to be inserted therein, and such appropriate insertions, omissions and changes to be made therein as may be required or permitted by this Indenture to conform to any pertinent law or usage:

No. AR-1 \$25,000,000

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PENNSYLVANIA SUBURBAN WATER
COMPANY

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 5.15% 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 Delaware 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 March 1, 2003, from the date

hereof) until the principal hereof shall become due and payable, at the rate of five and 15/100ths percent (5.15%) 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 March 1, 2003 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 5.15% per annum after maturity whether by acceleration or otherwise until paid.

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

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")

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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-Seventh Supplemental Indenture" dated as of December 15, 2002, and designated therein as "First Mortgage Bonds, 5.15% Series due 2032" (the "5.15% Series due 2032").

Concurrently herewith the Company is issuing its "First Mortgage Bonds, 3.75% Series due 2010" in the aggregate principal amount of \$3,200,000 (the "3.75% Series due 2010" and, together with the 5.15% 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.

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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 Financing Agreement (the "Financing Agreement") dated as of December 15, 2002, between the Delaware County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance (1) the cost of cleaning, re-lining and related improvement of pipelines and related equipment and facilities located in the Counties of Delaware, Montgomery and Bucks in Pennsylvania and that are part of the Company's system for the distribution of water to its customers, and related financing costs which are to be financed under a Financing Agreement dated as of December 15, 2002 (the "Financing Agreement") between the Company and the Delaware County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and which are described in Exhibit A thereto (which facilities, 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 are referred to as the "Facilities"), and (2) the refunding of the Authority's Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1992 previously issued by the Authority on behalf of Philadelphia Suburban Water Company (the "Refunding Project"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project), Series A of 2002, in the aggregate principal amount of \$25,000,000 due September 1, 2032 (the "Authority Series A Bonds") and bearing interest at 5.15% per annum, and the Refunding Project is to be financed through the sale of the Authority's Water Facilities Revenue Refunding Bonds (Pennsylvania Suburban Water Company Project), Series B of 2002 (the "Authority Series B Bonds" and, together with the Authority Series A Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of December 15, 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 security for the payment of the principal of, and premium, if any, and interest on, the Authority Bonds. The Authority Trustee may not sell, assign or otherwise transfer the Bonds except for a transfer of the entire outstanding principal amount thereof to its successor as Trustee under the Authority Indenture, which successor and each subsequent successor shall hold such Bonds subject to the same restriction on transfer.

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

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

The Bonds are redeemable only as follows:

(a) The 5.15% Series due 2032 are subject to redemption prior to maturity on or after September 1, 2013 by the Company, to the extent that the Authority Series A 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 of 100% of the principal amount of the Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption.

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

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

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

This Bond is transferable by the registered owner hereof in person or by attorney duly authorized in writing, on books of the Company to be kept for that purpose at the designated office of the Trustee in 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.

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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.

(Form of Trustee's Certificate)

This Bond is one of the Bonds, of the series designated

therein, referred to in the within-mentioned Thirty-Seventh Supplemental Indenture.

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION

By: _____
Authorized Signer

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 December 31, 2002.

Attest: PENNSYLVANIA SUBURBAN WATER COMPANY

(Assistant) Secretary

By: _____
Vice President and Treasurer

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No. BR-1

\$3,200,000

PENNSYLVANIA SUBURBAN WATER
COMPANY

(Incorporated under the Laws of the Commonwealth
of Pennsylvania)

First Mortgage Bond, 3.75% Series Due 2010

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 Delaware County Industrial Development Authority or its registered assigns, on the 1st day of June, 2010, at the designated office of J.P. Morgan Trust Company, National Association (hereinafter called the "Trustee") in Dallas, Texas, the sum of Three Million Two Hundred Thousand 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 June 1, 2003, from the date hereof) until the principal hereof shall become due and payable, at the rate of three and 75/100ths percent (3.75%) per annum, payable semiannually in like coin or currency on the first day of January and the first day of June in each year, commencing June 1, 2003 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 3.75% per annum after maturity whether by acceleration or otherwise until paid.

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

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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-Seventh Supplemental Indenture" dated as of December 15, 2002, and designated therein as "First Mortgage Bonds, 3.75% Series due 2010" (the "3.75% Series due 2010").

Concurrently herewith the Company is issuing its "First Mortgage Bonds, 5.15% Series due 2032" in the aggregate principal amount of \$25,000,000 (the "5.15% Series due 2032" and, together with the 3.75% Series due 2010, 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.

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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 Financing Agreement (the "Financing Agreement") dated as of December 15, 2002, between the Delaware County Industrial Development Authority, a Pennsylvania body politic and

corporate (the "Authority"), and the Company, which Authority Bonds are being issued to finance (1) cleaning, re-lining and related improvement of pipelines and related equipment and facilities located in the Counties of Delaware, Montgomery and Bucks in Pennsylvania and that are part of the Company's system for the distribution of water to its customers, and related financing costs which are to be financed under a Financing Agreement dated as of December 15, 2002 (the "Financing Agreement") between the Company and the Delaware County Industrial Development Authority, a Pennsylvania body politic and corporate (the "Authority"), and which are described in Exhibit A thereto (which facilities, 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 are referred to as the "Facilities"), and (2) the refunding of the Authority's Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project), Series of 1992 previously issued by the Authority on behalf of Philadelphia Suburban Water Company (the "Refunding Project"). The Facilities are to be financed through the sale of the Authority's Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project), Series A of 2002, in the aggregate principal amount of \$25,000,000 due September 1, 2032 (the "Authority Series A Bonds") and bearing interest at 5.15% per annum, and the Refunding Project is to be financed through the sale of the Authority's Water Facilities Revenue Refunding Bonds (Pennsylvania Suburban Water Company Project), Series B of 2002 (the "Authority Series B Bonds" and, together with the Authority Series A Bonds, the "Authority Bonds").

The Authority Bonds are to be issued under a Trust Indenture, dated as of December 15, 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 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.

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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 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.

(b) 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.

(c) The 3.75% Series due 2010 are not subject to optional redemption.

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.

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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.

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 December 31, 2002.

Attest:

PENNSYLVANIA SUBURBAN WATER COMPANY

By:

(Assistant) Secretary

Vice President and Treasurer

(Form of Trustee's Certificate)

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

J.P. MORGAN TRUST COMPANY,
NATIONAL ASSOCIATION

By: _____
Authorized Signer

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and;

WHEREAS, all acts and things necessary to make the Bonds, when executed by the Company and authenticated and delivered by the Trustee as in this Thirty-Seventh Supplemental Indenture provided and issued by the Company, valid, binding and legal obligations of the Company, and this Thirty-Seventh Supplemental Indenture a valid and enforceable supplement to said Original Indenture, have been done, performed and fulfilled, and the execution of this Thirty-Seventh Supplemental Indenture has been in all respects duly authorized; and

NOW, THEREFORE, THIS THIRTY-SEVENTH 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-Seventh 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:

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-Sixth Supplemental Indenture.

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II.

BUILDINGS AND EQUIPMENT.

All mains, pipes, pipe lines, service pipes, buildings, improvements, standpipes, reservoirs, wells, flumes, sluices, canals, basins, cribs, machinery, conduits, hydrants, water works, plants and systems, tanks, shops, structures, purification systems, pumping stations, fixtures, engines, boilers, pumps, meters and equipment which are now owned or may hereafter be acquired by the Company (except as herein expressly excepted), including all improvements, additions and extensions appurtenant to any real or fixed property

now or hereafter subject to the lien of the Original Indenture or any indenture supplemental thereto which are used or useful in connection with the business of the Company as a water company or as a water utility, whether any of the foregoing property is now owned or may hereafter be acquired by the Company.

It is hereby declared by the Company that all property of the kinds described in the next preceding paragraph, whether now owned or hereafter acquired, has been or is or will be owned or acquired with the intention of using the same in carrying on the business or branches of the business of the Company, and it is hereby declared that it is the intention of the Company that all thereof (except property hereinafter specifically excepted) shall be subject to the lien of the Original Indenture.

It is agreed by the Company that so far as may be permitted by law, tangible personal property now owned or hereafter acquired by the Company, except such as is hereafter expressly excepted from the lien hereof, shall be deemed to be and construed as fixtures and appurtenances to the real property of the Company.

III.

FRANCHISES AND RIGHTS OF WAY.

All the corporate and other franchises of the Company, all water and flowage rights, riparian rights, easements and rights of way, and all permits, licenses, rights, grants, privileges and immunities, and all renewals, extensions, additions or modifications of any of the foregoing, whether the same or any thereof, or any renewals, extensions, additions or modifications thereof, are now owned or may hereafter be acquired, owned, held, or enjoyed by the Company.

IV.

AFTER ACQUIRED PROPERTY.

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

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TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any way appertaining to the aforesaid property or any part thereof, with the reversion and reversions, remainder and remainders, tolls, rents, revenues, issues, income, product and profits thereof, and all the estate, right, title, interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, rights and franchises and every part and parcel thereof.

EXCEPTING AND RESERVING, HOWEVER, certain premises, not used or useful in the supplying of water by the Company, expressly excepted and reserved from the lien of the Original Indenture and not subject to the terms thereof.

AND ALSO SAVING AND EXCEPTING from the property hereby mortgaged and pledged, all of the following property (whether now owned by the Company or hereafter acquired by it): All bills, notes and accounts receivable, cash on hand and in banks, contracts, choses in action and leases to others (as distinct from the property leased and without limiting any rights of the Trustee with respect thereto under any of the provisions of the Original Indenture or of any indenture supplemental thereto), all bonds, obligations, evidences of indebtedness, shares of stock and other securities, and certificates or evidences of interest therein, all automobiles, motor trucks, and other like automobile equipment and all furniture, and all equipment, materials, goods, merchandise and supplies acquired for the purpose of sale in the ordinary course of business or for consumption in the operation of any properties of the Company other than any of the foregoing which may be specifically transferred or assigned to or pledged or deposited with the Trustee hereunder or required by the provisions of the Original Indenture or any indenture supplemental thereto so to be; provided, however, that if, upon the happening of a completed default, as specified in Section 1 of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the

mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

SUBJECT, HOWEVER, to the exceptions, reservations and matters hereinabove and in the Original Indenture recited, to releases executed since the date of the Original Indenture in accordance with the provisions thereof, to existing leases, to easements and rights of way for pole lines and electric transmission lines and other similar encumbrances and restrictions which the Company hereby certifies, in its judgment, do not impair the use of said property by the Company in its business, to liens existing on or claims against, and rights in and relating to, real estate acquired for right-of-way purposes, to taxes and assessments not delinquent, to alleys, streets and highways that 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.

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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-second series of bonds,

limited in aggregate principal amount to \$25,000,000 designated as "Pennsylvania Suburban Water Company, First Mortgage Bonds, 5.15% Series due 2032", and a forty-third series of Bonds, limited in aggregate principal amount to \$3,200,000 designated as "Pennsylvania Suburban Water Company, First Mortgage Bonds, 3.75% Series due 2010".

Interest on the 5.15% Series due 2032 shall be payable semiannually on March 1 and September 1 of each year (each an "interest payment date"), commencing March 1, 2003; interest on the 3.75 Series due 2010 shall be payable semiannually on January 1 and June 1 of each year (each an "interest payment date"), commencing June 1, 2003. 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 5.15% Series due 2032 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 5.15%. The 3.75% Series due 2010 shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) on June 1, 2010 and shall bear interest at the rate of 3.75%.

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 "AR" in the case of the 5.15% Series due 2032 and "BR" in the case of the 3.75% Series due 2010, 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 and to finance the refunding of the 1992 Bonds.

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 5.15% Series due 2032 are subject to redemption prior to maturity on or after September 1, 2013 by the Company, to the extent that the Authority Series A 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 of one hundred percent (100%) of the principal amount to be redeemed, plus interest accrued thereon to the date fixed for redemption:

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(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) The 3.75% Series due 2010 are not subject to optional redemption.

(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-Seventh Supplemental Indenture shall be surrendered to the Trustee for cancellation, and the Trustee shall forthwith cancel the same and, in accordance with applicable laws and regulations and the Trustee's policies and procedures, and on the

written request of the Company, deliver the same to the Company. In case part of an outstanding Bond shall be deemed to have been partially paid as provided in said Section 4 or Section 5, upon presentation of such Bond at the designated office of the Trustee, the Trustee shall make a notation thereon of the payment of the portion of the principal amount of such Bond so deemed to have been paid unless the registered owner shall elect to surrender such Bond to the Trustee, in which case the Company shall execute and the Trustee shall authenticate and deliver, without charge to the registered owner, Bonds in such authorized denominations as shall be specified by the registered owner for the unpaid balance of the principal amount of such outstanding Bond.

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SECTION 7. 5.15% Series due 2032 in the aggregate principal amount of \$25,000,000 and 3.75% Series due 2010 in the aggregate principal amount of \$3,200,000 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, 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 or on or before March 1 next occurring after the bonds of the 5.55% Series due 2032 cease to be outstanding, whichever is latest, an amount in cash (the "Maintenance or Improvement Deposit") equal to 9% of the Gross Operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

(a) the amount actually expended for maintenance during such calendar year; and

(b) the Cost or Fair Value, whichever is less, of Permanent Additions acquired during such calendar year which at the time of taking such credit constitute Available Permanent Additions; and

(c) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five calendar years preceding such calendar year and specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

SECTION 2. The Company covenants that it will on or before March 1 in each year, beginning with the first deposit made with the Trustee under the provisions of Section 1 of this Article, as long as any of the Bonds are outstanding, deliver to the Trustee the following:

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

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

(ii) 9% of such Gross Operating Revenues;

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

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

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

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

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

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

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

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

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

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

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

(B) In the event that the Officers' Certificate delivered to the Trustee pursuant to the provisions of paragraph (A) of this Section shall state, pursuant to the requirements of subparagraph (vi), the Cost or Fair Value of Available Permanent Additions acquired by the Company during the preceding calendar year, the documents specified in paragraphs 2, 3, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture.

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(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-Seventh 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 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.

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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 70% of Capitalization.

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"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-Seventh 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 Premises or any contamination by any Hazardous Substance (hereinafter defined), whether caused by the Company or any other person or entity, including, but not limited to, (1) any and all

reasonable expenses that the Trustee may incur in complying with any of the Environmental Statutes (hereinafter defined), (2) any and all reasonable costs that the Trustee may incur in studying or remedying any spill, leak or release which may have occurred on or invaded the Premises or any contamination, (3) any and all fines or penalties assessed upon the Trustee by reason of such contamination, (4) any and all loss of value of the Premises or the improvements thereon by reason of such contamination, and (5) any and all legal fees and costs reasonably incurred by the Trustee in connection with any of the foregoing. As used in this Section, contamination by any Hazardous Substance shall include contamination, arising from the presence, creation, production, collection, treatment, disposal, discharge, release, storage, transport or transfer of any Hazardous Substance at or from the Premises or any improvements thereon. As used in this Section, the term "Hazardous Substance" shall mean petroleum hydrocarbons or any substance which (a) constitutes a hazardous waste or substance under any applicable federal, state or local law, rule, order or regulation now or hereafter adopted; (b) constitutes a "hazardous substance" as

such term is defined under the Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C. ss.9601 et seq.) and the regulations issued thereunder and any comparable state or local law or regulation; (c) constitutes a "hazardous waste" under the Resource Conservation and Recovery Act, (42 U.S.C. ss.6991) and the regulations issued thereunder and any comparable state or local law or regulation; (d) constitutes a pollutant, contaminant, chemical or industrial, toxic or hazardous substance or waste as such terms are defined under Federal Clean Water Act, as amended (33 U.S.C. ss.1251 et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. ss.2601 et seq.), or any comparable state or local laws or regulations; (e) exhibits any of the characteristics enumerated in 40 C.F.R. Sections 261.20 - 261.24, inclusive; (f) those extremely hazardous substances listed in Section 302 of the Superfund Amendments and Reauthorization Act of 1986 (Public Law 99-499, 100 Stat. 1613) which are present in threshold planning or reportable quantities as defined under such act; (g) toxic or hazardous chemical substances which are present in quantities which exceed exposure standards as those terms are defined under Sections 6 and 8 of the Occupational Safety and Health Act, as amended (29 U.S.C. ss.ss.655 and 657 and 29 C.F.R. Part 1910, subpart 2); and (h) any asbestos, petroleum-based products or any Hazardous Substance contained within or release from any underground or aboveground storage tanks. As used in this Section, the term "Environmental Statutes" shall mean the statutes, laws, rules, orders and regulations referred to in (a) through (h) inclusive in the preceding sentence.

ARTICLE V.

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, Thirty-Fifth and Thirty-Sixth Supplemental Indentures are hereby confirmed. All references in this Thirty-Seventh Supplemental Indenture to the Original Indenture shall be deemed to refer to the Original Indenture as heretofore amended and supplemented, and all terms used herein and not specifically defined herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

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

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

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-Seventh 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-Seventh Supplemental Indenture is dated as of December 15, 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-Seventh Supplemental Indenture, the same may be simultaneously executed in several counterparts, each of which shall be deemed to be an original and such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their authorized officers have hereto affixed their signatures, and their authorized officers have duly attested the execution hereof, as of the 15th day of December, 2002.

[CORPORATE SEAL]

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

Attest: /s/ Roy H. Stahl

Secretary

By: /s/ Kathy L. Pape

Vice President and Treasurer

[CORPORATE SEAL]

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

Attest: /s/ Alan R. Halpern

Authorized Officer

By: /s/ Catherine Lenhardt

Authorized Officer

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EXHIBIT A

BONDS REDEEMED OR PAID AT MATURITY

[to be supplied]

EXHIBIT B

County and Grantor -----	Company's Real Estate Index No. -----	Date of Deed -----	Book ----	Recorded Page -----	Tax Parcel I.D. Number -----
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[TO BE SUPPLIED]

J.P. Morgan Trust Company National Association, Mortgagee and Trustee named in the foregoing Thirty-Seventh 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: _____
Authorized Officer

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF MONTGOMERY

On the ___20th_ day of December, 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-Seventh Supplemental Indenture as and for the act and deed of said corporation and for the uses and purposes therein mentioned, by signing the name of the corporation by herself as such officer.

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

[NOTARIAL SEAL]

/s/ Catherine A. Iezzi, Notary

COMMONWEALTH OF PENNSYLVANIA

COUNTY OF PHILADELPHIA

On the 24th day of December, 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-Seventh Supplemental Indenture as and for the act and deed of said national banking association and for the uses and purposes therein mentioned by signing the name of said national banking association by herself as such officer.

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

[NOTARIAL SEAL]

/s/ Sandra M. Abrahams, Notary

This Thirty-Seventh Supplemental Indenture was recorded on _____, 2002 in the Office for the Recording of Deeds for each of the counties tabulated below in the Mortgage Book and at the page indicated:

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

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

CREDIT AGREEMENT

THIS CREDIT AGREEMENT (this "Agreement") dated as of October 25, 2002, by and among PHILADELPHIA SUBURBAN CORPORATION, a Pennsylvania corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (the "Banks"), and PNC BANK, NATIONAL ASSOCIATION, a national banking association, as administrative agent (in such capacity, the "Agent").

BACKGROUND

The Borrower has requested that the Banks make Loans (that term and certain other terms are defined in Section 1.1 hereof) to the Borrower, and the Banks severally have agreed to make such Loans on the terms and conditions herein contained. Proceeds of the Loans will be used by the Borrower to purchase certain of its issued and outstanding Capital Stock from one or more of the Vivendi Entities.

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

SECTION 1. DEFINITIONS

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

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

"Agreement": this Credit Agreement, as amended, supplemented or otherwise modified from time to time.

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

"Base Rate": for any day, a rate per annum (rounded upwards, if necessary, to the next 1/100th of 1%) equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus one half of one percent (0.5%). If for any reason the Agent shall have determined (which

determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability or failure of the Agent to obtain sufficient quotations in accordance with the definition of such term, the Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the effective date of such change in the Prime Rate or the

Federal Funds Effective Rate, as the case may be.

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

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

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

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

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

"Change of Control": an event or series of events by which (a) any "person" or "group" (as such terms are defined in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder), is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under such Exchange Act, except that a Person shall be deemed to have "beneficial ownership" of all shares that any such Person has the right to acquire without condition, other than passage of time, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 25% of the total voting power of the then outstanding Voting Stock of the Borrower, or (b) from and after the date hereof, individuals who on the date hereof constitute the Board of Directors of the Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of the Borrower was approved by a vote of a majority of the directors then still in office who were either directors on the date hereof or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of the Borrower then in office.

"Closing": as defined in Section 4.2.

"Closing Date": as defined in Section 4.2.

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

"Commitment": as to any Bank, the obligation of such Bank to make a Loan to the Borrower hereunder in the principal amount not to exceed the amount set forth opposite such Bank's name on Schedule I.

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

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

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

reflected on a balance sheet of the Borrower in accordance with GAAP.

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

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

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

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

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

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

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

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

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

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

(b) to advance or supply funds

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

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

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

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

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

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

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"Debt to Capitalization Ratio" for any period, the ratio of (i) Consolidated Funded Debt to (ii) Total Capitalization.

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

"Distribution": in respect of any corporation, (a) dividends, distributions or other payments on account of any capital stock of the corporation (except distributions in common stock of such corporation); (b) the redemption or acquisition of such stock or of warrants, rights or other options to purchase such stock (except when solely in exchange for common stock of such corporation); and (c) any payment on account of, or the setting apart of any assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of any share of any class of capital stock of such corporation or any warrants or options to purchase any such stock.

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

"Environmental Laws": any and all applicable foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or binding requirements of any Governmental Authority, or binding Requirement of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of the environment, as now or may at any time hereafter be in effect.

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

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

"Eurodollar Base Rate": with respect to any Eurodollar Loans for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the rate determined by the Agent in accordance with its usual procedures (which determination shall be conclusive absent manifest error) to be the average of the London interbank offered rates of interest per annum for Dollars set forth on Telerate display page 3750 or such other display page on the Telerate System as may replace such page to evidence the average of

rates quoted by banks designated by the British Bankers' Association (or appropriate successor, or if the British Bankers' Association or its successor ceases to provide such quotes, a comparable replacement determined by the Agent), for an amount approximately equal in principal amount to the amount of such Eurodollar Loans.

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

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

Eurodollar Base Rate

1.00 - Eurocurrency Reserve Requirements

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

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

"Fees": as defined in subsection 2.3(a).

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

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

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

"Insolvent": pertaining to a condition of Insolvency.

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

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

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

(a) initially the period commencing on the conversion date with respect to such Eurodollar Loan and ending one, three or six months thereafter, as selected by the Borrower in its notice of conversion, given with respect thereto; and

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

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

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

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

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

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

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

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

"Loan": the term loan made by each Bank to the Borrower pursuant to Section 2.1 hereof and "Loans" shall be the collective reference to all such term loans.

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"Loan Documents": this Agreement and the Notes and any other instruments, certificates or documents delivered or contemplated to be delivered hereunder or in connection herewith.

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

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum

products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, and ureaformaldehyde insulation.

"Maturity Date": October 24, 2003.

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

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

"Net Proceeds": (a) with respect to the sale or issuance of any Capital Stock by the Borrower, the net amount equal to (i) the aggregate amount received in cash in connection with such sale or issuance minus (ii) the reasonable fees, commissions and other out-of-pocket expenses incurred by the Borrower in connection with such sale or issuance; and (b) with respect to the incurrence by the Borrower of any indebtedness for borrowed money (other than under operating lines of credit), the net amount equal to (i) the aggregate amount received in cash from the incurrence of such indebtedness minus (ii) the sum of (A) the principal amount of any Debt which is promptly repaid in connection with such incurrence (i.e., a refinancing) and (B) the reasonable fees, commissions and other out-of-pocket expenses incurred by the Borrower payable in connection with such incurrence to Persons other than an Affiliate of the Borrower.

"Note": a promissory note of the Borrower in the form of Exhibit A issued to a Bank, as the same may be amended, supplemented or otherwise modified from time to time and "Notes" shall be the collective reference to all such promissory notes issued to the Banks.

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

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

"Permitted Acquisition": an acquisition by the Borrower of the stock or assets of a Person engaged in businesses similar or incidental or ancillary to Borrower's or any Subsidiary's existing business, provided that at least 30 days prior to the consummation of any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds

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\$25,000,000, no Default or Event of Default shall exist or would exist if such acquisition were consummated on such date (assuming for purposes of the covenants contained in Section 6.1 that pro forma adjustments are made to the financial statements of the Borrower reflecting such acquisition; provided, that historical EBIT of the Person to be acquired (or the assets of which are to be acquired) shall be included for purposes of calculating such covenant compliance only if historical financial statements of such Person are received by the Agent at least 30 days prior to the consummation of such acquisition), and the Borrower shall have delivered to the Agent a certificate of a Responsible Officer showing calculations in reasonable detail demonstrating such pro forma compliance with the covenants contained in Section 6.1, and provided further, that any such acquisition for which cash consideration paid by the Borrower (including the assumption of Debt in connection therewith) exceeds \$50,000,000, shall also have been consented to by the Required Banks.

"Permitted Investments": Investments in:

- (a) one or more Subsidiaries thereof;
- (b) current assets arising from the sale or purchase of goods and services in the ordinary course of business of the Borrower;
- (c) direct obligations of the United States of America, or any agency or instrumentality thereof or

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

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

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

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

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

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

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

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

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

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

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

"Purchase Agreement": that certain Registration and Stock Purchase Agreement dated as of July 8, 2002, between the Borrower and the Vivendi Entities, as the same may be amended, supplemented or otherwise modified from time to time.

"Purchase Money Security Interest": Liens upon tangible personal property securing loans to the Borrower or deferred payments by the Borrower for the purchase of such tangible personal property, in each case securing amounts which do not exceed the purchase price of the property subject to such security interests.

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

"Regulation X": Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect, and all official

rulings and interpretations thereunder or thereof.

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

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

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"Required Banks": at any time, (a) Banks whose Pro-Rata Percentages aggregate at least 66 2/3%, or (b) if there are only two Banks which have outstanding Loans, both Banks.

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

"Responsible Officer": the chief financial officer, treasurer or controller of the Borrower.

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

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

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

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

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

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

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

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

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

"Subsidiary": as to any Person, (i) any corporation, limited liability company, company or trust of which 50% or more (by number of shares or number of votes) of the outstanding capital stock, interests, shares or similar items of beneficial interest normally entitled to vote for the election of one or more directors, managers or trustees (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such person or one or more of such Person's Subsidiaries, or any partnership

of which such Person is a general partner or of which 50% or more of the partnership interests is at the time directly or indirectly owned by such Person or one or more of such Person's Subsidiaries, and (ii) any corporation, company, trust, partnership or other entity which is controlled or capable of being controlled by such Person or one or more of such Person's subsidiaries. Unless otherwise indicated, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary of the Borrower.

"Total Capitalization": at any period, the sum of (i) Consolidated Shareholders' Equity plus (ii) Consolidated Funded Debt.

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

"Tranche": the collective reference to Eurodollar Loans whose Interest Periods begin on the same date and end on the same later date.

"Vivendi Entities": Vivendi Environnement S.A., a French corporation, Vivendi Water S.A., a French corporation and Vivendi North America Company, a Delaware corporation.

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

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

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

1.3 Construction. (a) Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular the plural and the part the whole, "or" has the inclusive meaning represented by the phrase "and/or," and "including" has the meaning represented by the phrase "including without limitation." References in this Agreement to "determination" of or by the Agent or the Banks shall be deemed to include good faith estimates by the Agent or the Banks (in the case of quantitative determinations) and good faith beliefs by the Agent or the Banks (in the case of qualitative determinations). Whenever the Agent or the Banks are granted the right herein to act in their sole discretion or to grant or withhold consent such right shall be exercised in good faith, except as otherwise provided herein. Except as otherwise expressly provided, all references herein to the "knowledge of" or "best knowledge of" the Borrower shall be deemed to refer to the knowledge of a Responsible Officer thereof. The words "hereof," "herein,"

"hereunder", "hereby" and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The section and other headings contained in this Agreement and the Table of Contents preceding this Agreement are for reference purposes only and shall not control or affect the construction of this Agreement or the interpretation thereof in any respect. Section, subsection, schedule and exhibit references are to this Agreement unless otherwise specified.

(b) Except as otherwise provided in this Agreement, all

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

SECTION 2. THE LOANS

2.1 Loans. Subject to the terms and conditions and relying upon the representations and warranties herein set forth, each Bank, severally and not jointly, agrees to make a Loan to the Borrower in the amount of such Bank's Commitment; provided, however, that the failure of any Bank to make its Loan shall not in itself relieve any other Bank of its obligation to lend hereunder (it being understood, however, that no Bank shall be responsible for the failure of any other Bank to make a Loan required to be made by such other Bank). The Loans shall initially be Base Rate Loans, provided that they may be converted to Eurodollar Loans in accordance with the provisions of this Agreement. Each Loan shall be made on the Closing Date. Each Bank's Commitment shall terminate upon the making of its Loan and the Borrower may not reborrow any amount of the Loan which has been repaid.

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

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(b) All conversions and continuations of Loans hereunder and all selections of Interest Periods hereunder shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (A) the aggregate principal amount of the portion of the Loans comprising each Tranche of Eurodollar Loans shall be equal to \$500,000 or a whole multiple of \$100,000 in excess thereof and (B) the Borrower shall not have outstanding at any one time more than in the aggregate five (5) separate Tranches of Eurodollar Loans.

2.3 Fees. (a) The Borrower agrees to pay to the Agent for its own account administrative and other fees at the times and in the amounts as the Agent and the Borrower may agree from time to time (collectively, the "Fees").

(b) All Fees shall be paid on the dates due, in immediately available funds, to the Agent. Once paid, none of the Fees shall be refundable under any circumstances.

2.4 Notes; Repayment of Loans. The Loan made by each Bank shall be evidenced by a single Note duly executed on behalf of the Borrower, dated the Closing Date, in substantially the form attached hereto as Exhibit A with the blanks appropriately filled, payable to such Bank in a principal amount equal to

the Loan made by such Bank. Each Note shall bear interest from the date thereof on the outstanding principal balance thereof as set forth in Section 2.5. Each Bank shall, and is hereby authorized by the Borrower to, endorse on the schedule attached to the relevant Note held by such Bank (or on a continuation of such schedule attached to each such Note and made a part thereof), or otherwise to record in such Bank's internal records, an appropriate notation evidencing the date and amount of the Loan of such Bank, each payment or prepayment of principal of the Loan, and the other information provided for on such schedule; provided, however, that the failure of any Bank to make such a notation or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loan made by such Bank in accordance with the terms of the relevant Note. The outstanding principal balance of each Loan, as evidenced by the relevant Note, shall be payable on the Maturity Date and is subject to optional and mandatory prepayment as provided in Section 2.7.

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

(b) Subject to the provisions of Section 2.6, each Eurodollar Loan shall bear interest (computed on the basis of the actual number of days elapsed over a year of 360 days) at a rate per annum equal to the Eurodollar Rate for the Interest Period in effect for such Eurodollar Loan plus one hundred basis points (1.00%).

(c) Interest on each Loan shall be payable on each Interest Payment Date applicable to such Loan; provided that, interest accruing on overdue amounts pursuant to Section 2.6 shall be payable on demand as provided in the Notes. The Eurodollar Rate and the Base Rate shall be determined by the Agent, and such determination shall be conclusive absent error.

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

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

2.7 Optional and Mandatory Prepayments of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay the Loans, in whole or in part, without premium or penalty (but in any event subject to Section 2.11), upon prior written, telecopy or telephonic notice to the Agent given no later than 11:00 a.m., Philadelphia time, one Business Day before any proposed prepayment; provided, however, that each such partial prepayment of Loans shall be in the principal amount of at least \$500,000 or in whole multiples of

\$100,000 in excess thereof.

(b) Promptly upon receipt by the Borrower of any Net Proceeds from the issuance of Capital Stock of the Borrower or the incurrence by the Borrower of indebtedness for borrowed money (other than under operating lines of credit), the Borrower shall pay to the Agent 100% of such Net Proceeds. Such payments shall be applied by the Agent to the prepayment of the Loans then outstanding, without premium or penalty (but in any event subject to Section 2.11). The Borrower shall give the Agent no later than 11:00 a.m., Philadelphia time, one Business Day's prior written, telecopy or telephonic notice of each prepayment pursuant to this clause (b) setting forth the date and expected amount thereof. All prepayments of the Loans under this clause (b) shall be applied to Base Rate Loans then outstanding and the balance, if any, shall be applied to Eurodollar Loans then outstanding, with payments applied to Eurodollar Loans being applied in order of next maturing Interest Periods.

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(c) Each notice of prepayment shall specify the prepayment date and the principal amount of the Loans to be prepaid, shall be irrevocable and shall commit the Borrower to prepay such Loans (or portion thereof) by the amount stated therein. All prepayments under this Section on other than Base Rate Loans shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment. No prepayments of the Loans, whether optional or mandatory, may be reborrowed by the Borrower.

2.8 Illegality. Notwithstanding any other provision herein, if any change in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Bank hereunder to make Eurodollar Loans, continue Eurodollar Loans as such and convert Base Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) the portion of such Bank's Loan then outstanding as Eurodollar Loans, if any, shall be converted automatically to Base Rate Loans on the respective last days of the then current Interest Periods with respect to such Loan or within such earlier period as required by law. If any such conversion of a Eurodollar Loan occurs on a day which is not the last day of the then current Interest Period with respect thereto, the Borrower shall pay to such Bank such amounts, if any, as may be required pursuant to Section 2.11.

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

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

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

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

and the result of any of the foregoing is to increase the cost to such Bank, by an amount which such Bank reasonably deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof then, in any such case, the Borrower shall as promptly as practicable pay such Bank, upon its demand, any additional amounts necessary to compensate such Bank for such increased cost or reduced amount receivable; provided, that the Borrower shall not be liable for any such amounts incurred by such Bank more than 180 days prior to the date of such Bank's notification to the Borrower. If any Bank becomes entitled to claim any additional amounts pursuant to this subsection, it shall as promptly as

practicable notify the Borrower, through the Agent, of the event by reason of which it has become so entitled. A certificate describing in reasonable detail the determination of any additional amounts payable pursuant to this subsection submitted by such Bank, through the Agent, to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder. If any amount is refunded to such Bank, such Bank will reimburse Borrower for amounts paid in respect of the refunded amount.

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(b) In the event that any Bank shall have determined that any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Bank or any corporation controlling such Bank with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Bank's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Bank or such corporation could have achieved but for such change or compliance (taking into consideration such Bank's or such corporation's policies with respect to capital adequacy) by an amount reasonably deemed by such Bank to be material, then from time to time, after submission as promptly as practicable by such Bank to the Borrower (with a copy to the Agent) of a written request therefor, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(c) Each Bank agrees that it will use reasonable efforts in order to avoid or to minimize, as the case may be, the payment by the Borrower of any additional amount under subsections 2.9(a) and (b); provided, however, that no Bank shall be obligated to incur any expense, cost or other amount in connection with utilizing such reasonable efforts. Notwithstanding any other provision of this Section 2.9, no Bank shall apply the provisions of subsections 2.9(a) or (b) hereof with respect to the Borrower if it shall not at the time be the general policy or practice of the Bank exercising its rights hereunder to apply the provisions similar to those of this Section 2.9 to other Borrower in substantially similar circumstances under substantially comparable provisions of other credit agreements.

2.10 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding, in the case of the Agent and each Bank, net income taxes and franchise or gross receipts taxes (imposed in lieu of net income taxes) imposed on the Agent or such Bank, as the case may be, as a result of a present or former connection between the jurisdiction of the government or taxing authority imposing such tax and the Agent or such Bank or any political subdivision or taxing authority thereof or therein (all such non-excluded taxes, levies, imposts, duties, charges, fees, deductions and withholdings being hereinafter called "Taxes"). Except as provided in Section 2.10(c) and the penultimate sentence of this Section 2.10(a), if any Taxes are required to be withheld from any amounts payable to the Agent or any Bank hereunder or under the Notes, the amounts so payable to the Agent or such Bank shall be increased to the extent necessary to yield to the Agent or such Bank (after payment of all Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes. Whenever any Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Agent for its own account or for the account of such Bank, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Banks for any incremental taxes, interest or penalties that may become payable by the Agent or any Bank as a result of any such failure. If as a result of a payment by the Borrower of Taxes pursuant to this subsection a Bank receives a tax benefit or tax savings such as by receiving a credit against, refund of, or reduction in Taxes which such Bank would not have received but for the payment by the Borrower of Taxes pursuant to this subsection, then such Bank shall promptly pay to the Borrower the amount of such credit, refund, reduction or any other similar item. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(b) Each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to the Borrower and the Agent (i) two duly completed copies of United States Internal Revenue Service Form W-8ECI or W-8BEN or successor applicable form, as the case may be, and (ii) an Internal Revenue Service Form W-8 or W-9 or successor applicable form. Each such Bank also agrees to deliver to the Borrower and the Agent two further copies of the said Form W-8ECI or W-8BEN and Form W-8 or W-9, or successor applicable forms or other manner of certification, as the case may be, on or before the date that any such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower, and such extensions or renewals thereof as may reasonably be requested by the Borrower or the Agent, unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank so advises the Borrower and the Agent. Such Bank shall certify (i) in the case of a Form W-8ECI or W-8BEN, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Bank shall deliver to the Borrower and the Agent, with respect to Taxes imposed by any Governmental Authority other than the United States of America, similar forms, if available (or the information that would be contained in similar forms if such forms were available), to the forms which are required to be provided under this subsection with respect to Taxes of the United States of America.

(c) The Borrower shall not be required to pay any additional amounts to the Agent or any Bank in respect of payments of United States withholding tax or other Taxes made by the Borrower which are consistent with the forms and information delivered to the Borrower and the Agent or if the payment of such amounts would not have arisen but for a failure by the Agent or such Bank to comply with the requirements of subsection 2.10(b) or the Agent or such Bank did not timely deliver to the Borrower the forms listed or described in subsection 2.10(b) or did not take such other steps as reasonably may be available to it under applicable tax laws and any applicable tax treaty or convention to obtain an exemption from, or reduction (to the lowest applicable rate) of, such United States withholding tax and other Taxes or, if such steps were taken, the information was not timely and duly delivered to Borrower.

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

2.12 Pro Rata Treatment, etc. Except as required under Section 2.8, each Borrowing, each payment or prepayment of principal of the Loans, each payment of interest on the Loans, and each conversion of Loans shall be made pro rata among the Banks in accordance with their respective Pro-Rata Percentages.

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

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

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

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

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

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

(d) any portion of a Eurodollar Loan that cannot be converted into or continued as a Eurodollar Loan by reason of paragraph 2.14(b) or 2.14(c) automatically shall be converted at the end of the Interest Period in effect for such Loan to a Base Rate Loan;

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

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

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

SECTION 3. REPRESENTATIONS AND WARRANTIES

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

3.1 Financial Condition. (a) The audited consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 2001 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, and the consolidated balance sheet as at June 30, 2002 and the statements of income and cash flow of the Borrower and its Subsidiaries for the six month period ended June 30, 2002, copies of all of which have heretofore been furnished to each Bank, present fairly the consolidated financial condition of the Borrower as at such dates, and the consolidated results of its operations and its consolidated cash flows for the periods covered thereby. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved. Neither the Borrower nor any of its Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Contingent Obligation, liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is required by GAAP to be but is not reflected in the foregoing statements or in the notes thereto.

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

(ii) The Borrower does not intend to incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it and the timing of the amounts of cash to be payable on or in respect of its Debt.

3.2 No Adverse Change. Since December 31, 2001, there has been no development or event which has had a Material Adverse Effect.

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

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

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

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

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

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

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

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

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

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

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

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

"subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (c) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

3.12 Purpose of Loans. The proceeds of the Loans shall be used by the Borrower solely to purchase the Capital Stock of the Borrower from one or more of the Vivendi Entities pursuant to and in accordance with the terms of the Purchase Agreement, a true and correct copy of which has been delivered to the Agent.

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

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

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

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

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

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

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

3.15 Ownership of Property. The Borrower has good and marketable fee simple title to or valid leasehold interests in all real property owned or leased by the Borrower (except in the case of certain properties not material to its business as to which its title was obtained by quit-claim or special

warranty deed), and good title to all of its personal property subject to no Lien of any kind except Liens permitted hereby. The Borrower enjoys peaceful and undisturbed possession under all of its respective material leases.

3.16 Licenses, etc. The Borrower has obtained and holds in full force and effect, all franchises, licenses, permits, certificates, authorizations, qualifications, easements, rights of way and other rights, consents and approvals which are necessary for the operation of its business as presently conducted.

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

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

3.19 Partnerships. Except as disclosed on Schedule 3.19, as of the Closing Date, the Borrower is not a partner in any partnership or in any joint venture.

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

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

SECTION 4. CONDITIONS PRECEDENT; CLOSING

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

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

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

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

therein), and the Borrower shall have performed and complied with all covenants and conditions hereof; and no Event of Default or Default under this Agreement shall have occurred and be continuing or shall exist.

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

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

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

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

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

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

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

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

(l) Purchase Agreement. All conditions for the purchase of the Capital Stock of the Borrower pursuant to the Purchase Agreement, including any and all required approvals of any Governmental Authority, shall have been satisfied and the Agent shall have received evidence satisfactory to it that such purchase has been consummated simultaneously with the making of the Loans.

(m) Additional Documents. The Agent shall have received such additional documents, certificates and information as the Agent may require

pursuant to the provisions hereof or as the Agent may otherwise reasonably request.

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4.2 Closing. The closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Ballard Spahr Andrews & Ingersoll, LLP, commencing at 10:00 a.m., Philadelphia time, on October 25, 2002 or such other place or date as to which the Agent, the Banks and the Borrower shall agree. The date on which the Closing shall be completed is referred to herein as the "Closing Date".

SECTION 5. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as any Note remains outstanding and unpaid or any other amount is owing to any Bank or the Agent hereunder, the Borrower shall:

5.1 Financial Statements. Furnish to each Bank (i) within 60 days after the end of each of the first three fiscal quarters of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each such fiscal quarter and statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 120 days after the end of each fiscal year a consolidated balance sheet of the Borrower and its Subsidiaries as of the end of each fiscal year and statements of income, statements of retained earnings and cash flow for such fiscal year. All financial statements will be prepared in accordance with GAAP applied on a basis consistently maintained throughout the period involved and with the prior periods, such annual financial statements to be certified by independent certified public accountants selected by the Borrower and reasonably acceptable to the Agent, without any exception or qualification arising out of the restricted or limited nature of the examination made by such accountants.

5.2 Certificates; Other Information. Furnish to each Bank:

(a) concurrently with the delivery of the financial statements referred to in subsection 5.1, a certificate on behalf of the Borrower executed by a Responsible Officer, (i) showing in detail the calculations supporting such statements in respect of Section 6.1; and (ii) stating that, to the best of his or her knowledge, the Borrower during such period has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement and in the Notes and the other Loan Documents applicable to it and that he or she obtained no knowledge of any Default or Event of Default except as specifically indicated; and

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

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

5.4 Conduct of Business and Maintenance of Existence. Subject to Section 6.4 hereof, continue to engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and, except to the extent that failure to do so would not have a Material Adverse Effect, take all reasonable action to maintain all rights, privileges, trademarks, trade names, licenses, franchises and other

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authorizations necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law except to the

extent that failure to comply therewith would not reasonably be expected to have, in the aggregate, a Material Adverse Effect.

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

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

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

(b) Maintain and keep proper books of record and account which enable the Borrower to issue financial statements in accordance with GAAP and as otherwise required by applicable Requirements of Law, and in which full, true and correct entries shall be made in all material respects of all its dealings and business and financial affairs.

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

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

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

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

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

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

Each notice pursuant to this Section shall be accompanied by a statement of the

Borrower, executed on its behalf by a Responsible Officer, setting forth details of the occurrence referred to therein and stating what action the Borrower propose to take with respect thereto.

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

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

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

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

SECTION 6. NEGATIVE COVENANTS

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

6.1 Financial Covenants.

(a) Debt to Capitalization Ratio. Permit as of the end of any fiscal quarter the Debt to Capitalization Ratio to be greater than sixty five percent (65%).

(b) Interest Coverage Ratio. Permit as of the end of any fiscal quarter the Interest Coverage Ratio to be less than 2.0 to 1.

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

(i) amounts outstanding hereunder as Loans;

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

(iii) Subordinated Debt;

(iv) Debt to commercial banks under lines of credit in an aggregate outstanding amount of up to \$37,000,000;

(v) intercompany indebtedness to the extent permitted by Section 6.8; and

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

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

(a) The following (i) if the validity or amount thereof is being contested in good faith by appropriate and lawful proceedings diligently conducted so long as levy and execution thereon have been stayed and continue to be stayed or (ii) if a final judgment is entered and such judgment is discharged within thirty (30) days of entry, and in either case they do not materially impair the ability of the Borrower to perform its obligations hereunder or under the other Loan Documents:

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

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

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

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

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

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

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

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

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

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

(i) Purchase Money Security Interests in capital equipment purchased in the ordinary course of business.

6.4 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer

or otherwise dispose of, all or substantially all of its property, business or assets except that:

(a) any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that the Borrower shall be the continuing or surviving corporation); and

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(b) any corporation or limited liability company may be merged or consolidated with or into the Borrower in connection with a Permitted Acquisition in accordance with Section 6.6 in which the continuing or surviving entity is the Borrower;

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

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

(i) the sale, transfer or other disposition of obsolete or worn out property in the ordinary course of business;

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

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

(iv) any sale, transfer or lease of assets the proceeds of the sale of which are used to prepay the Loans; and

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

6.6 Limitation on Acquisitions, Investments, Loans and Advances. Purchase, hold or acquire beneficially any stock, other securities or evidences of indebtedness of, or all or a substantial amount of the assets of, make or permit to exist any loans or advances to, or make or permit to exist any investment or acquire any interest whatsoever in, any other Person, except:

(a) extensions of trade credit to customers in the ordinary course of business;

(b) Permitted Investments;

(c) loans and advances to or other investments in any Wholly-Owned Subsidiary;

(d) loans and advances to employees of the Borrower for travel and entertainment expenses in the ordinary course of business; and

(e) Permitted Acquisitions.

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6.7 No Negative Pledge or Other Restrictions. (a) Enter into any agreement after the date hereof with any Person other than the Agent on behalf

of the Banks pursuant to which the Borrower covenants or agrees to a prohibition upon creating, incurring, or suffering any Lien upon any of its properties, assets or revenues, whether now owned or hereafter acquired, except in connection with a Capital Lease or Purchase Money Security Interest, in which case such agreement shall be permitted but only with respect to the specific asset or assets subject to such Capital Lease or Purchase Money Security Interest or

(b) Permit any Subsidiary to enter into any agreement after the date hereof with any Person pursuant to which such Subsidiary agrees to any limitation or restriction on its ability to declare and pay dividends or otherwise make Distributions directly or indirectly to the Borrower in respect of the Capital Stock of such Subsidiary owned directly or indirectly by the Borrower.

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

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

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

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

SECTION 7. EVENTS OF DEFAULT

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

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

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

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

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

(e) One or more judgments or decrees shall be entered against the Borrower involving in the aggregate a liability (not paid or fully covered by insurance) of \$1,000,000 or more and all such judgments or decrees shall not

have been vacated, discharged, settled, satisfied or paid, or stayed or bonded pending appeal, within thirty (30) days from the entry thereof; or

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

(g) (i) The Borrower shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or the Borrower shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismitted, undischarged or unbonded for a period of sixty (60) days; or (iii) there shall be commenced against the Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process on a claim in excess of \$1,000,000 against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; or (iv) the Borrower shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

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

(i) Any Change of Control shall occur; or

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

privileges intended to be created thereby; or

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

(l) The Borrower ceases to be Solvent; or

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

7.2 Remedies. (a) If an Event of Default specified under subsections 7.1 (a) through (f) or (h) through (m) shall occur and be continuing, the Banks shall be under no further obligation to make Loans hereunder, and the Agent upon the request of the Required Banks shall, by written notice to the Borrower, declare the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder to be forthwith due and payable, and the same shall thereupon become and be immediately due and payable to the Agent for the benefit of each Bank without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived.

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(b) If an Event of Default specified under subsections 7.1(g) hereof shall occur, the unpaid principal amount of the Notes then outstanding and all interest accrued thereon, any unpaid fees and all other obligations of the Borrower to the Banks hereunder and thereunder shall be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived.

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

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

(i) first, to reimburse the Agent for out-of-pocket

costs, expenses and disbursements, including without limitation reasonable attorneys' fees and legal expenses, incurred by the Agent in connection with collection of any obligations of the Borrower under any of the Loan Documents;

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

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

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

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

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

(e) Each Bank agrees that (i) if at any time it shall receive the proceeds of any collateral or any proceeds thereof or (ii) if after the occurrence of an Event of Default it shall receive any payment on account of the Loans or any other amounts owing hereunder or under the other Loan Documents (in either case other than through application by the Agent in accordance with subsection 7.2(d)), it shall promptly turn the same over to the Agent for application in accordance with the terms of subsection 7.2(d).

(f) In addition to the other rights and remedies contained in this Agreement or in the other Loan Documents, the Loans shall, at the Required Banks' option, bear the interest rates provided in Section 2.6 hereof.

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

SECTION 8. THE AGENT

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

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

8.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable to any of the Banks for any action lawfully taken or omitted to be taken by them or such Person under or in connection with this Agreement (except for

their or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Banks for any recitals, statements, representations or warranties made by the Borrower or any officer thereof

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contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Notes or the other Loan Documents or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Bank to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or the other Loan Documents, or to inspect the properties, books or records of the Borrower.

8.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Banks as they deem appropriate or they shall first be indemnified to its satisfaction by the Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes and the other Loan Documents in accordance with a request of the Required Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Banks and all future holders of the Notes.

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

8.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its

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own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

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

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

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

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

SECTION 9. MISCELLANEOUS

9.1 Amendments and Waivers. Neither this Agreement, any Note or any other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the written consent of the Required Banks, the Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes and the other Loan Documents for the purpose of adding any provisions to this Agreement or the Notes or the other Loan Documents or changing in any manner the rights of the Banks or of the Borrower hereunder or thereunder or waiving, on such terms and conditions as the

Agent may specify in such instrument, any of the requirements of this Agreement or the Notes or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall directly or indirectly (a) reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any Fees payable to any Bank hereunder, or change the duration or amount of any Bank's Commitment, in each case without the consent of the Bank affected thereby or (b) amend, modify or waive any provision of this Section 9.1 or reduce the percentages specified in the definition of Required Banks or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement, the Notes and the other Loan Documents, in each case without the written consent of all the Banks or (c) amend, modify or waive any provision of Section 8 without the written consent of the then Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Banks and shall be binding upon the Borrower, the Banks, the Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the Banks and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

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

the Borrower: Philadelphia Suburban Corporation
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
Attention: Kathy L. Pape,
Vice President and Treasurer
Facsimile: (610) 519-0989

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

The Agent: PNC Bank, National Association
1000 Westlakes Drive, Suite 200
Berwyn, PA 19312
Attention: Forrest B. Patterson, Jr.
Facsimile: (610) 725-5799
and
PNC Agency Services
One PNC Plaza
249 Fifth Avenue

22nd Floor
Pittsburgh, PA 15222
Attention: Andrea Gibb
Facsimile: (412) 762-8672

provided that any notice, request or demand to or upon the Agent, the Swing Line Bank or the Banks pursuant to Sections 2.1 or 2.7 shall not be effective until received.

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

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

9.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay or reimburse the Agent for all of its reasonable out-of-pocket costs and expenses incurred in connection with any amendment, supplement or modification to this Agreement, the Notes, the other Loan Documents and any other documents prepared in connection therewith, including, without limitation, the reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include

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employees of the Agent), (b) to pay or reimburse each Bank and the Agent for all of their costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the other Loan Documents and any such other documents, including, without limitation, reasonable fees and disbursements of counsel to the Agent (which counsel may or may not include employees of the Agent) and to the several Banks, and (c) to pay, indemnify, and hold each Bank and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other similar taxes, if any (other than Taxes expressly excluded from the definition of Taxes in Section 2.10 and Taxes for which the Borrower has no liability under subsection 2.10(c)) which may be payable or determined to be payable in connection with the execution and delivery of, or consummation of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the other Loan Documents, and any such other documents, and (d) to pay, indemnify, and hold each Bank and the Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, and, incident to a Default or Event of Default, the performance and administration, of this Agreement, the Notes, the other Loan Documents and any such other documents or the transactions contemplated hereby or thereby or any action taken or omitted under or in connection with any of the foregoing (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Agent or any Bank with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Agent or any such Bank. The Borrower shall be given notice of any claim for indemnified liabilities and shall be afforded a reasonable opportunity to participate in the defense, compromise or settlement thereof. The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

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

(b) Each Bank may, in accordance with applicable law, assign all or a portion of its interests, rights and obligations under this Agreement and the other Loan Documents (including the Loan at the time owing to it and the Note held by it); provided, however, that (i) each such assignment shall be to a Bank or Affiliate thereof, or, with the consent of the Agent and, prior to the occurrence of an Event of Default, of the Borrower (which consent shall not be unreasonably withheld or delayed) to one or more banks or other financial institutions; (ii) the amount of each such assignment shall not be less than the lesser of \$5,000,000 and the outstanding principal amount of such Bank's Loan; and (iii) the parties to each such assignment shall execute and deliver to the Agent an Assignment and Acceptance, together with the Note subject to such assignment and a processing and recordation fee of \$3,500 (except in the case of an assignment by any Bank to one of its Affiliates). Upon acceptance and

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recording pursuant to paragraph (d) of this Section 9.6, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five Business Days after the execution thereof, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Bank under this Agreement and (B) the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.9, 2.10, 2.11 and 9.5 (to the extent that such Bank's entitlement to such benefits arose out of such Bank's position as a Bank prior to the applicable assignment)).

(c) By executing and delivering an Assignment and Acceptance, the assigning Bank thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Bank warrants that it is the legal and beneficial owner of the interest being assigned thereby, free and clear of any adverse claim, and that the outstanding balances of its Loan, without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance, (ii) except as set forth in (i) above, such assigning Bank makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the other Loan Documents, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or the other Loan Documents, or any other instrument or document furnished pursuant hereto or thereto, or the financial condition of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon the Agent, such assigning Bank or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of this Agreement are required to be performed by it as a Bank.

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

(e) Upon its receipt of a duly completed Assignment and Acceptance executed by an assigning Bank and an assignee together with the Note subject to such assignment, the processing and recordation fee referred to in paragraph (b) above, the Agent shall (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Banks. Within five Business Days after receipt of notice, the Borrower, at its own expense, shall execute and deliver to the Agent, in exchange for the surrendered original Note, (x) a new Note to the order of such assignee in an amount equal to the portion of the outstanding Loan purchased by it pursuant to such Assignment and Acceptance and, (y) if the assigning Bank has retained a portion of the Loan, a new Note to the order of such assigning Bank in a principal amount equal to the portion of the outstanding Loan retained by it. Such new Notes shall be dated the date of the surrendered Note which it replaces and shall otherwise be in substantially the form of Exhibit A hereto. Canceled Notes shall be returned to the Borrower.

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

(g) If amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this Agreement or any Note, provided that in purchasing such participation such Participant shall be deemed to have agreed to share with the Banks the proceeds thereof as provided in Section 9.8. The Borrower also agrees that each Participant shall be entitled to the benefits of Sections 2.9, 2.10, 2.11 and 9.5 with respect to its participation in the Loan outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the Bank selling the participation would have been entitled to receive in respect of the amount of the participation transferred by such Bank to such Participant had no such transfer occurred.

(h) If any Participant is organized under the laws of any jurisdiction other than the United States or any state thereof, the Bank selling the participation, concurrently with the sale of a participating interest to such Participant, shall cause such Participant (i) to represent to the Bank selling the participation (for the benefit of such Bank, the other Banks, the Agent and the Borrower) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Borrower or the Bank selling the

participation with respect to any payments to be made to such Participant in respect of its participation in the Loan and (ii) to agree (for the benefit of such Bank, the other Banks, the Agent and Borrower) that it will deliver the tax forms and other documents required to be delivered pursuant to Section 2.10 and

comply from time to time with all applicable U.S. laws and regulations with respect to withholding tax exemptions.

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

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

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

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

9.9 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and each of the Banks.

9.10 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

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

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

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

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

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

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

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

9.14 Acknowledgments. The Borrower hereby acknowledges that:

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

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

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

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

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

By: /s/ David P. Smeltzer

Title: Senior Vice President-Finance and
Chief Financial Officer

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

By: /s/ Kristine Manili

Title: Vice President

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Exhibit 4.24

Schedule I

Bank and Commitment Information

Bank ----	Commitment -----
PNC Bank, National Association 100 Westlakes Drive, Suite 200 Berwyn, PA 19312 Attention: Forrest B. Patterson, Jr.	\$22,000,000

Exhibit 4.24

Schedule 3.6

Existing Litigation

None

Exhibit 4.24

Schedule 3.10

ERISA Matters

None

Exhibit 4.24

Schedule 3.11

Regulatory Approvals

None

Exhibit 4.24

Schedule 3.13
Environmental Matters

None

Exhibit 4.24

Schedule 3.19
Interests in Partnerships

None

Exhibit 4.24

Schedule 6.2
Permitted Debt

Contingent Obligations

Guaranty and Suretyship Agreement between the Borrower and the Pennsylvania Infrastructure Investment Authority ("PENNVEST") dated March 12, 2002 securing payment of a loan from PENNVEST to Little Washington Wastewater Company in the amount of \$2,102,612.71.

Guaranty and Suretyship Agreement between the Borrower and PENNVEST dated March 12, 2002 securing payment of a loan from PENNVEST to Little Washington Wastewater Company in the amount of \$3,004,780.71.

Exhibit 4.24

Schedule 6.3
Existing Liens

None

Exhibit 4.24

EXHIBIT A

NOTE

\$ _____

Philadelphia, Pennsylvania
October __, 2002

EXHIBIT B

FORM OF
ASSIGNMENT AND ACCEPTANCE

Reference is made to the Credit Agreement dated as of October 25, 2002 (as amended, modified, extended or restated from time to time, the "Agreement"), among Philadelphia Suburban Corporation (the "Borrower"), the banks party thereto (the "Banks") and PNC Bank, National Association, as Agent. Terms defined in the Agreement are used herein with the same meanings.

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

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

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

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

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

_____, as Assignor

By: _____

Name:
Title:

_____, as Assignee

By: _____
Name:
Title:

Acknowledged:

PNC BANK, NATIONAL ASSOCIATION,
as Agent

By: _____
Name:
Title:

Consented to:

PHILADELPHIA SUBURBAN CORPORATION

By: _____
Name:
Title:

B-2

Exhibit 4.24

SCHEDULE A

Date of Assignment:

Legal Name of Assignor:

Legal Name of Assignee:

Assignee's Address for Notices:

Attention: _____

Telecopy: _____

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

Principal Amount of Loan Assigned

Pro-Percentage of Loans Assigned

\$

%

Exhibit 4.24

=====

CREDIT AGREEMENT

among

PHILADELPHIA SUBURBAN CORPORATION

and

THE BANKS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION

as Agent

Dated as of October 25, 2002

\$22,000,000

=====

Exhibit 4.24

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SCHEDULE 6.3	Existing Liens

EXHIBITS

EXHIBIT A	Form of Note
EXHIBIT B	Form of Assignment and Acceptance

NOTE

\$22,000,000

Philadelphia, Pennsylvania
October 25, 2002

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN CORPORATION (the "Borrower"), hereby promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the "Bank"), at the office of PNC Bank, National Association (the "Agent"), at 1600 Market Street, Philadelphia, PA 19103, on the Maturity Date, the lesser of the principal sum of Twenty Two Million Dollars (\$22,000,000) and the aggregate unpaid principal amount of the Loan made by the Bank to the Borrower pursuant to Section 2.1 of the Credit Agreement dated as of October 25, 2002, among the Borrower, the Banks party thereto and the Agent (as amended, modified, extended or restated from time to time, the "Agreement"), in lawful money of the United States of America in same day funds, and to pay interest from the date hereof on such principal amount from time to time outstanding, in like funds, at said office, at a rate or rates per annum and payable on the dates determined pursuant to the Agreement.

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

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

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

This Note is one of the Notes referred to in, evidences indebtedness incurred under, and is entitled to the benefits of the Agreement. The Agreement, among other things, contains provisions for the acceleration of the maturity hereof upon the happening of certain events, for optional and mandatory prepayments of the principal hereof prior to the maturity hereof, for a higher rate of interest hereunder after an Event of Default and for the amendment or waiver of certain provisions of the Agreement, all upon the terms and conditions therein specified. This

Commonwealth of Pennsylvania and any applicable laws of the United States of America. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Agreement.

PHILADELPHIA SUBURBAN CORPORATION

By: /s/ David P. Smeltzer

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

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

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT is made as of this 16th day of December, 2002, by and among PENNSYLVANIA SUBURBAN WATER COMPANY, a Pennsylvania corporation and successor by merger to Philadelphia Suburban Water Company ("Borrower"), the several banks which are parties to this Agreement (each a "Bank" and collectively, "Banks") and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, "Agent").

BACKGROUND

A. Borrower, Agent, Banks and Wachovia Bank, National Association (successor by merger to First Union National Bank) ("Wachovia") are parties to a Credit Agreement, dated as of December 22, 1999, as amended by a First Amendment to Credit Agreement dated as of November 28, 2000 and a Second Amendment to Credit Agreement dated as of December 18, 2001 (as so amended, the "Credit Agreement"), pursuant to which Banks and Wachovia agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to \$70,000,000 (the "Loans"). The Loans are evidenced by Borrower's Revolving Credit Notes in the aggregate principal face amount of \$70,000,000 (the "Notes").

B. Borrower, Agent and Banks desire to decrease the amount of the facility by \$15,000,000, terminate, at its request, the Commitment of Wachovia, modify the interest rate provisions of the Credit Agreement and extend the Termination Date of the facility, all on the terms and subject to the conditions herein set forth.

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

AGREEMENT

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

2. Amendments to Credit Agreement. Effective on December 16, 2002 (the "Effective Date") the Credit Agreement is hereby amended as follows:

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

"Termination Date": the earlier of (a) December 14, 2003 or any later date to which the Termination Date shall have been extended pursuant to subsection 2.8(d) hereof and (b) the date the Commitments are terminated as provided herein."

(b) Section 2.6(b) is hereby amended by deleting "twenty two and one-half basis points (.225%)" and substituting therefor "twenty five basis points (.25%)."

(c) The Commitment of Wachovia is hereby terminated at its request and the amount of the Total Commitment is hereby reduced from \$70,000,000 to \$55,000,000 and any references to "\$70,000,000" in the Credit Agreement shall be changed to "\$55,000,000." The Commitment of each of the other Banks shall remain unchanged.

(d) To give effect to the termination of Wachovia's Commitment and the corresponding reduction in the Total Commitment, Schedule I to the Credit Agreement is hereby amended and replaced with Schedule I attached hereto.

3. Repayment of Wachovia. On the Effective Date, all of the Revolving Credit Loans of Wachovia, all accrued interest thereon and any Fees and other amounts due to Wachovia under the Credit Agreement shall be paid by Borrower to Wachovia, the Revolving Credit Note of Wachovia shall be canceled and returned

to Borrower and Wachovia shall cease to be a Bank under (and accordingly shall cease to be a party to) the Credit Agreement. Following such repayment Agent shall obtain from Wachovia its acknowledgment that it is no longer a Bank under or a party to the Credit Agreement.

4. Adjusting Payments. On or before the Effective Date Agent shall notify each Bank as to the adjusting payments, if any, which will be required to be made to the outstanding Revolving Credit Loans of each Bank in order to give effect to the termination of Wachovia's Commitment and the decrease in the Total Commitment so that after such adjusting payments are made each Bank's outstanding Revolving Credit Loans evidenced by such Bank's Revolving Credit Note shall be in an amount equal to its Commitment Percentage of all outstanding Revolving Credit Loans. On the Effective Date each Bank agrees to pay to the other Banks the amounts, if any, specified by Agent in such notice.

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

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

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

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

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

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

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

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

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

- (i) This Agreement;
- (ii) Copies, certified by the Secretary or an Assistant Secretary of Borrower of resolutions of the board of directors of Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the other documents and transactions contemplated hereby;
- (iii) Copies, certified by its corporate secretary of the articles of incorporation, certificate of formation, and by-laws of Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date,

true and correct copies thereof were delivered to Agent; and

- (iv) Such additional documents, certificates and information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

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

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

(d) Borrower shall have paid to Agent for the benefit of Banks an additional fee of \$66,000 to be distributed to Banks pro rata in accordance with their Commitments (after giving effect to the decrease in the Total Commitments provided herein).

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9. Miscellaneous.

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

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

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

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

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

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

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

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

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

above written.

PENNSYLVANIA SUBURBAN
WATER COMPANY

By: /s/ Kathy L. Pape

Title: Vice President and Treasurer

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

By: /s/ Forrest B. Patterson, Jr.

Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Mark W. Torie

Title: Vice President

FLEET NATIONAL BANK

By: /s/ Diane Donaldson

Title: Vice President

Schedule I

Bank and Commitment Information

Bank ----	Commitment -----	Swing Line Commitment -----
PNC Bank, National Association 1000 Westlakes Drive, Suite 200 Berwyn, PA 19312 Attention: Forrest B. Patterson, Jr.	\$22,500,000	\$5,000,000
Citizens Bank of Pennsylvania 610 W. Germantown Avenue Plymouth Meeting, PA 19462 Attention: Mark W. Torie	\$17,500,000	N/A
Fleet National Bank 2 Portland Square, 5th Floor Portland, Maine 04101 Attention: Diane Donaldson	\$15,000,000	N/A

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT is made as of this 24th day of December, 2002, by and among PENNSYLVANIA SUBURBAN WATER COMPANY, a Pennsylvania corporation and successor by merger to Philadelphia Suburban Water Company ("Borrower"), the several banks which are parties to this Agreement (each a "Bank" and collectively, "Banks") and PNC BANK, NATIONAL ASSOCIATION in its capacity as agent for Banks (in such capacity, "Agent").

BACKGROUND

A. Borrower, Agent and Banks other than National City Bank ("National City") are parties to a Credit Agreement, dated as of December 22, 1999, as amended by a First Amendment to Credit Agreement dated as of November 28, 2000, a Second Amendment to Credit Agreement dated as of December 18, 2001 and a Third Amendment to Credit Agreement dated as of December 16, 2002 (as so amended, the "Credit Agreement"), pursuant to which Banks (other than National City) agreed to make revolving credit loans to Borrower in an aggregate outstanding amount of up to \$55,000,000 (the "Loans"). The Loans are evidenced by Borrower's Revolving Credit Notes in the aggregate principal face amount of \$55,000,000 (the "Notes").

B. Borrower, Agent and Banks desire to increase the amount of the facility by \$15,000,000 and add National City as an additional bank under the Credit Agreement, all on the terms and subject to the conditions herein set forth.

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

AGREEMENT

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

2. Amendments to Credit Agreement. Effective on December 26, 2002 (the "Effective Date") the Credit Agreement is hereby amended as follows:

(a) The amount of the Total Commitment is hereby increased from \$55,000,000 to \$70,000,000 and any references to "\$55,000,000" in the Credit Agreement shall be changed to "\$70,000,000." The entire \$15,000,000 of such increase shall become the Commitment of National City upon its joinder as a party to the Credit Agreement as provided hereunder. The Commitment of each of the other Banks shall remain unchanged.

(b) To give effect to the increase in the Total Commitment and the joinder of National City as a Bank, Schedule I to the Credit Agreement is hereby amended and replaced with Schedule I attached hereto.

3. Joinder of National City. Effective on the Effective Date, National City hereby joins in and becomes a party to the Credit Agreement with a Commitment of \$15,000,000, agrees to be bound by the provisions of the Credit Agreement and shall have the rights and obligations of a Bank thereunder and under any other document issued in connection therewith. National City hereby makes and agrees to be bound by all of the representations, warranties and agreements set forth in Section 9.6(c) of the Agreement as if it were the assignee of its Commitment under the provisions of Section 9.6.

4. Additional Note. Concurrently with the execution and delivery of this Agreement, Borrower shall execute and deliver to National City a Revolving Credit Note in the face amount of \$15,000,000 in the form of Exhibit B-2 attached to the Credit Agreement.

5. Adjusting Payments. Prior to the Effective Date Agent shall notify

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

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

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

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

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

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

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

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

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

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

- (i) This Agreement;
- (ii) The additional Revolving Credit Note to National City;
- (iii) Copies, certified by the Secretary or an Assistant Secretary of Borrower as of a recent date, of resolutions of the board of directors of Borrower in effect on the date hereof authorizing the execution, delivery and performance of this Agreement and the other documents and transactions contemplated hereby;
- (iv) Copies, certified by its corporate secretary as of a recent date, of the articles of incorporation, certificate of formation, and by-laws of Borrower as in effect, or a certificate stating that there have been no changes to any such documents since the most recent date, true and correct copies thereof were delivered to Agent; and
- (v) Such additional documents, certificates and

information as Agent or Banks may require pursuant to the terms hereof or otherwise reasonably request.

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

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

(d) Borrower shall have paid to Agent for the benefit of National City a fee of \$18,000 to be distributed to National City.

10. Miscellaneous.

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

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

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

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

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

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

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

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

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

PENNSYLVANIA SUBURBAN
WATER COMPANY

By: /s/ Kathy L. Pape

Title: Vice President and Treasurer

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

By: /s/ Forrest B. Patterson, Jr.

Title: Vice President

CITIZENS BANK OF PENNSYLVANIA

By: /s/ Mark W. Torie

Title: Vice President

FLEET NATIONAL BANK

By: /s/ Diane Donaldson

Title: Vice President

NATIONAL CITY BANK

By: /s/ David P. Dobstaff

Title: Vice President

Schedule I

Bank and Commitment Information

Bank ----	Commitment -----	Swing Line Commitment -----
PNC Bank, National Association 1000 Westlakes Drive, Suite 200 Berwyn, PA 19312 Attention: Forrest B. Patterson, Jr.	\$22,500,000	\$5,000,000
Citizens Bank of Pennsylvania 610 W. Germantown Avenue Plymouth Meeting, PA 19462 Attention: Mark W. Torie	\$17,500,000	N/A
Fleet National Bank 2 Portland Square, 5th Floor Portland, Maine 04101 Attention: Diane Donaldson	\$15,000,000	N/A
National City Bank 20 Federal Plaza W. Youngstown, Ohio 44501 Attention: David P. Dobstaff	\$15,000,000	N/A

BOND PURCHASE AGREEMENT

\$28,200,000

DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

\$25,000,000	\$3,200,000
Water Facilities Revenue Bonds	Water Facilities Revenue Refunding Bonds
(Pennsylvania Suburban Water	(Pennsylvania Suburban Water
Company Project)	Company Project)
Series A of 2002	Series B of 2002

Bond Purchase Agreement dated December 19, 2002, among the DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Authority"), PENNSYLVANIA SUBURBAN WATER COMPANY, a Pennsylvania corporation (the "Company"), and THE GMS GROUP, L.L.C., a Pennsylvania limited liability company, as representative (the "Representative") for itself, First American Municipals Inc. and Janney Montgomery Scott LLC (collectively, the "Underwriters").

1. Background.

(a) The Authority proposes to enter into a Financing Agreement (the "Financing Agreement") dated as of December 15, 2002 with the Company, under which the Authority will agree to loan to the Company funds to (i) finance the cleaning, re-lining and related improvement of pipelines and related equipment and facilities located in the Counties of Delaware, Montgomery and Bucks in Pennsylvania (the "2002A Facilities") and that are part of the Company's system (the "System") for the distribution of water to its customers, and related financing costs (collectively, the "Construction Project") and pay costs of issuance; and (ii) currently refund (the "Refunding Project") the Authority's Water Facilities Revenue Refunding Bonds (Philadelphia Suburban Water Company Project) Series of 1992 (the "1992 Bonds"), which were issued to refund a like principal amount of Delaware County Industrial Development Authority Water Facilities Revenue Bonds (Philadelphia Suburban Water Company Project) Series A of 1980, (the "1980 Bonds"). The 1980 Bonds were issued to finance the acquisition, construction, installation and equipping of the certain facilities (the "2002B Facilities" and, together with the 2002A Facilities, the "Facilities") and pay costs of issuance of the 1980 Bonds. The 2002B Facilities include water mains, pipelines, reservoirs, wells and related equipment and facilities in various locations in Bucks, Chester, Delaware and Montgomery Counties. To finance the loan under the Financing Agreement, the Authority proposes to issue and sell \$25,000,000 aggregate principal amount of Delaware County Industrial Development Authority Water Facilities Revenue Bonds, (Pennsylvania Suburban Water Company Project) Series A of 2002 (the "Series A Bonds") and \$3,200,000 aggregate principal amount of Delaware County Industrial Development Authority Water Facilities Revenue Refunding Bonds, (Pennsylvania Suburban Water Company Project) Series B of 2002 (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds") to the Underwriters, 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"), resolutions adopted by the Authority on October 25, 2002 and November 8, 2002 (together, the "Authority Resolution") and under a Trust Indenture dated as of December 15, 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 Series A Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond issued with respect to the Series A Bonds in the principal amount of \$25,000,000 (the "2002A First Mortgage Bond"). The Series B Bonds will be payable out of payments by the Company under the Financing Agreement, including payments under its First Mortgage Bond issued with respect to the Series B Bonds in the principal amount of \$3,200,000 (the "2002B First Mortgage Bond" and

together with the 2002A First Mortgage Bond, the "First Mortgage Bonds"). The First Mortgage Bonds will be issued 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 J.P. 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., Mellon Bank, N.A. and Chase Manhattan Trust Company, National Association) (the "Mortgage Trustee"), as presently amended and supplemented and as to be further supplemented by a Thirty-Seventh Supplemental Indenture of Mortgage (the "Thirty-Seventh Supplemental Mortgage," which together with the Indenture of Mortgage, as amended and supplemented, is referred to hereinafter as the "Mortgage") to be dated as of December 15, 2002. Each First Mortgage Bond will be issued in the same principal amount and will mature on the date and bear interest at the rate of the series of Bonds that it secures. 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 Bonds, and all of the Authority's rights to moneys and securities in the Project Funds, the Revenue Funds and the Debt Service Funds (and the accounts within all such Funds applicable to the Bonds) established by the Trust Indenture, 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 Construction Project and Refunding Project (collectively, the "Project") will finance and refinance, respectfully, the acquisition, construction, installation and equipping of 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 Underwriters 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").

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(d) A Preliminary Official Statement dated December 13, 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 Representative 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 Underwriters will buy from the Authority, and the Authority will sell to the Underwriters, all (but not less than all) of the Bonds at a purchase price equal to \$27,777,000, consisting of the aggregate principal amount of the Bonds, less an Underwriting fee of \$423,000. Payment shall be made in immediately available funds to the Trustee for the account of the Authority. Closing (the "Closing") will be at the offices of Obermayer Rebmann Maxwell & Hoppel LLP, bond counsel, at 10:00 a.m., Eastern Daylight Time, on December 31, 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 (or such other location as is acceptable to the Representative). If the Representative so requests, the Bonds shall be made available to the Underwriters (prior to their delivery to DTC) in Philadelphia, Pennsylvania at least three full business days before the Closing for purposes of inspection.

The Underwriters agree 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 Underwriters reserve 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 Underwriters 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:

(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 certificates executed by the Authority in connection therewith (collectively, with the Authority Resolution, the "Authority Financing Documents"); (iii) issue, sell and deliver the Bonds to the Underwriters 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;

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(b) The Authority Resolution was duly adopted at two separate public meetings of the Authority at which a quorum was present and acting throughout; and the Authority Resolution is in full force and effect and has not been amended, repealed or superseded in any way.

(c) The sections entitled "INTRODUCTORY STATEMENT" (insofar as it 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;

(d) The sections entitled "INTRODUCTORY STATEMENT" (insofar as it relates to the Authority) and "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;

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

(f) 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;

(g) 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;

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

(i) The Bonds, when issued, authenticated and delivered in accordance with the Trust Indenture and sold to the Underwriters 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"));

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(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, 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 Representative shall be deemed a representation and warranty by the Authority to the Underwriters 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 September 30, 2002 any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and since the respective dates as of which information is given in the Official Statement, there have not been any material changes in the outstanding capital stock or the long-term debt of the Company or any material adverse change, or a development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company, otherwise than as set forth or contemplated in the Official Statement.

(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.

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(c) Each 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-Seventh Supplemental Mortgage has been duly authorized. When the Thirty-Seventh 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; (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 (iii) will create a similar lien upon all properties and assets acquired by the Company after the execution and delivery of the Thirty-Seventh 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-Seventh 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 (i) all of its real property currently held in fee simple; (ii) 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 (iii) all personal property owned by it. In each case such title is 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. 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.

(f) In each of the following cases except for such exceptions that 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

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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. The Company has the legal power to exercise the rights of eminent domain for the purposes of conducting its water utility operations.

(g) The issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds and the compliance by the Company with all of the

applicable provisions of the First Mortgage Bonds and the Mortgage and the execution, delivery and performance by the Company of the Thirty-Seventh 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 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. No consent, approval, authorization, order, registration or qualification of or with any court or any such regulatory authority or other governmental body (other than those already obtained) is required for the issue and sale of the Bonds, the issue and delivery of the First Mortgage Bonds, the execution, delivery and performance by the Company of this Bond Purchase Agreement, the Financing Agreement, the Thirty-Seventh Supplemental Mortgage, the First Mortgage Bonds 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 Bonds 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 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 diligence, no such proceedings are threatened by governmental authorities or threatened by others.

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

(l) The Company has not, within the immediately preceding ten (10) years, defaulted in the payment of principal or interest on any of its bonds, notes or other securities, or any legally authorized obligation issued by it; and

(m) The information with respect to the Company and the Project and the descriptions of the Financing Agreement, the First Mortgage Bonds, the Mortgage and the Continuing Disclosure Agreement 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 Representative as the

Representative 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 Representative 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 Representative and the Company and will advise the Representative 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.

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;

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(b) indemnify and hold harmless the Authority, its members, directors, officers, agents, attorneys, and employees and the Underwriters, their officers, directors, officials, agents, attorneys, employees, and each person, if any, who controls any of the Underwriters 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 Underwriters, or any of them, or any of their respective members, directors, officers, agents, attorneys, and employees and each person, if any, who controls any of the Underwriters within the meaning of the 1933 Act or 1934 Act as aforesaid may become subject, under federal laws or regulations, or otherwise, insofar as such losses, claims, damages, liabilities and expenses (or actions in respect thereof) arise out of or are based upon: (i) a breach of the Company's representations included in this Agreement; (ii) any untrue statement or alleged untrue statement of any material fact pertaining to the Project or the Company set forth in the Official Statement, the Preliminary Official Statement or any amendment either, or (iii) the willful or negligent omission of (or the alleged omission to state) a material fact in the Official Statement, in the Preliminary Official Statement, or in any amendment or supplement to either, as such fact is required to be stated therein or necessary to make the statements therein that pertain to the Company or the Project not misleading in the light of the circumstances under which they were made, or (iv) arising by virtue of the failure to register the Bonds under the 1933 Act or the failure to qualify the Indenture under the 1939 Act;

(c) undertake, pursuant to the Continuing Disclosure Agreement dated December 31, 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 Final Official Statement; and

(d) not amend or supplement the Official Statement without prior notice to, and the consent of, the Representative, and will advise the Representative 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.

7. Underwriters' Covenant. By acceptance hereof the Underwriters agree 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

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Representative furnished only the information under such "UNDERWRITING" heading), or (ii) failure on the part of any Underwriter to deliver an Official Statement to any purchaser. The Underwriters 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 that the Underwriters may otherwise have. The Underwriters shall not be liable for any settlement of, any such action effected without its consent.

8. Notice of Indemnification; Settlement. Promptly after a party, person or entity indemnifiable under Section 6 or 7 of this Bond Purchase Agreement (an "Indemnitee") receives notice of the commencement of any action against such Indemnitee in respect of which indemnity is to be sought by the Indemnitee against the Company or an Underwriter, as the case may be (the "Indemnifying Party"), the Indemnitee will notify the Indemnifying Party in writing of such action, and the Indemnifying Party may assume the defense thereof, including the employment of counsel and the payment of all expenses; but the omission so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability that it may have to the Indemnitee otherwise than hereunder. The Indemnifying Party shall not be liable for any settlement of any such action effected without its consent, but if settled with the consent of the Indemnifying Party or if there is a final judgment for the plaintiff in any such action, the Indemnifying Party will indemnify and hold harmless the Indemnitee from and against any loss or liability by reason of such settlement or judgment. The indemnity agreements contained in this Bond Purchase Agreement (i) shall include reimbursement for expenses reasonably incurred by an Indemnitee in investigating the claim and in defending it if the Indemnifying Party declines to assume the defense and (ii) 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 any 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 such Underwriter, contribute to the amount paid or payable by such 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 such 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 such Underwriter in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and such Underwriter, respectively, in connection with the statements or omission which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefit received by the Company or an 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 such 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 such Underwriter and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters 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 that does not take account of the equitable considerations referred to above in this Section 9. The amount paid or payable by an Underwriter as a

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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 such Underwriter in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, an 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 that such 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 Underwriters 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 it relates to the Authority, "INTRODUCTORY STATEMENT") deem final and complete as of its date; (ii) the Company shall provide to the Underwriters 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 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 Underwriters by the Company (as that phrase is defined in Rule 15c2-12) then the Company shall promptly give the Representative notice thereof. The Authority and the Company hereby authorize the use of the Preliminary Official Statement and the Official Statement by the Underwriters in connection with the offering of the Bonds.

(b) After the Closing, and until the Representative has informed the Authority and the Company that the Underwriters have 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 Representative; 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 Representative, 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 Representative, so that the Official Statement then will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances existing at that time, not misleading. The Authority shall cooperate with the Company in the issuance and distribution of any such amendment or supplement.

(c) Upon Closing, the Representative 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 to 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.

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11. Conditions of Underwriters' and Authority's Obligations. The Underwriters' 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 Representative shall have received:

(i) An opinion of Obermayer, Rebmann, Maxwell & Hippel, LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit A hereto, addressed to (or with reliance letters delivered in respect of) the Authority, the holders of the Bonds and the Representative;

(ii) An opinion of Obermayer, Rebmann, Maxwell & Hippel, LLP, Bond Counsel, dated the date of Closing, substantially in the form attached as Exhibit B hereto, addressed to the Representative;

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

(iv) Opinions of Dilworth Paxson LLP, counsel to the Company, and the Company's Senior Vice President - Law and Administration, dated the date of Closing, substantially in the forms attached as Exhibit D hereto, addressed to the Representative, the Authority and Bond Counsel, in form and substance reasonably satisfactory to the Representative and to Bond Counsel;

(v) An opinion of Ballard Spahr Andrews & Ingersoll, LLP, counsel for the Underwriters, in form and substance reasonably satisfactory to the Representative;

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

(vii) An agreed upon procedures letter dated the date of Closing and addressed to the Representative from PricewaterhouseCoopers LLP, the Company's auditors, with respect to financial information set forth in Appendix A to the Official Statement, in form and substance reasonably satisfactory to the Representative;

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(viii) A certificate dated the date of Closing executed by the Chairman 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 Chairman, are true and correct in all material respects as of the date of Closing; and

(B) to the best of the knowledge of such Chairman, the 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;

(ix) 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 that is required to be disclosed in the Official Statement in order to make the statements and information therein not misleading in any material respect;

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

(xi) Two copies of the Articles of Incorporation and By-laws of the Company, as amended to the date of Closing, and of the resolutions of the Board of Directors of the Company authorizing and approving the execution and delivery of this Bond Purchase Agreement, the Financing Agreement, the First Mortgage Bonds, the Thirty-Seventh 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;

(xii) Two copies of the Authority Resolution;

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(xiii) A letter from PricewaterhouseCoopers LLP, dated the date of Closing and addressed to the Representative; 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;

(xiv) Evidence of the issuance of the Bond 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;

(xv) Evidence satisfactory to the Representative of a rating of "AAA" assigned by Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, and that such rating is in full force and effect as of the date of Closing;

(xvi) Evidence satisfactory to Bond Counsel and the Representative of the receipt by the Authority of a Preliminary Allocation relating to the Series A Bonds from the Pennsylvania Department of Community and Economic Development and of the registration of a Securities Certificate relating to the First Mortgage Bonds and the Bonds with the Pennsylvania Public Utility Commission; and

(xvii) Such additional documentation as the Representative 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 Bonds 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 that 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 Representative, makes it inadvisable to proceed with the sale of the Bonds; and the Representative 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 Representative shall deliver at Closing a certificate in form acceptable to Bond Counsel to the effect that the Underwriters have sold to the public (excluding bond houses and brokers) a substantial amount of the Bonds at initial offering prices no higher than, or yields no lower than, those shown on the cover page of the Official Statement and that such certificate may be relied upon for purposes of determining compliance with Section 148 of the Code.

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

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(a) A legislative, executive or regulatory action or proposed action, or a court decision, which in the reasonable judgment of the Representative 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 that would require registration of the Bonds or the First Mortgage Bonds 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 Representative 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 Representative will use their best efforts to amend or supplement the Official Statement to reflect, to the reasonable satisfaction of the Representative, 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 Representative, 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 Underwriters in a timely manner as required by Section 10 hereof. If the Underwriters terminate their 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 Underwriters, 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 Underwriters 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 Bonds, the Thirty-Seventh

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 Underwriters 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 Underwriters will pay all other expenses of the Underwriters in connection with the public offering of the Bonds.

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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 Representative:

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

Attention: George C. Werner, III
Senior Vice President

Fax #: (215) 851-6988
Email: gwerner@gmsgroup.com

The Company:

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

Attention: Kathy Lee Pape, Vice President,
Treasurer & Rate Counsel

Fax #: (610) 519-0989
Email: papek@suburbanwater.com

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The Authority:

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

Attention: J. Patrick Killian, Commerce Director

Fax #: (610) 566-7337
Email: infor@delcopa.org

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 Representative.

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.

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Exhibit 10.44
Execution Copy

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

DELAWARE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: /s/ Henry Coleman

Chairman

PENNSYLVANIA SUBURBAN WATER COMPANY

By: /s/ Kathy L. Pape

Vice President and Treasurer

THE GMS GROUP, L.L.C.

By: /s/ George C. Werner

George C. Werner, III
Senior Vice President

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SCHEDULE I

Terms of Bonds

Principal Amounts: Series A Bonds: \$25,000,000
 Series B Bonds: \$3,200,000

Dated Date: December 31, 2002

Maturity Dates: Series A Bonds: September 1, 2032
 Series B Bonds: June 1, 2010

Interest Payment Dates: Series A Bonds: March 1 and September 1, commencing March 1, 2003
 Series B Bonds: June 1 and December 1, commencing June 1, 2003

Rates of Interest: Series A Bonds: 5.15%
 Series B Bonds: 3.75%

Redemption provisions:

The Bonds are subject to redemption as follows:

Optional Redemption. The Series A Bonds are subject to redemption prior to maturity by the Authority, at the direction of the Company, on or after September 1, 2013, as a whole or in part at any time, at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the date fixed for redemption. The Series B Bonds are not subject to optional redemption at any time.

Mandatory Sinking Fund Redemption. The Series B Bonds are subject to mandatory sinking fund redemption prior to maturity by the Authority on the dates and in the amounts set forth in the table below and at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the date fixed for redemption. as a whole or in part at any time, at a redemption price equal to one hundred percent (100%) of the principal amount thereof, plus interest accrued to the date fixed for redemption.

Redemption Date	Principal Amount
-----	-----
June 1, 2003	\$400,000
June 1, 2004	\$400,000
June 1, 2005	\$400,000
June 1, 2006	\$400,000
June 1, 2007	\$400,000
June 1, 2008	\$400,000
June 1, 2009	\$400,000
June 1, 2010*	\$400,000

* Maturity Date

EXHIBIT A

FORMS OF APPROVING OPINIONS OF
 OBERMAYER REBMANN MAXWELL & HIPPEL LLP
 (SEE APPENDIX D OF OFFICIAL STATEMENT)

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EXHIBIT B

FORM OF SUPPLEMENTAL OPINION OF
OBERMAYER REBMANN MAXWELL & HIPPEL LLP

December 31, 2002

The GMS Group, L.L.C.
The Mills at Victoria
1489 Baltimore Pike
Building 200, Suite 245
Springfield, PA 19064

RE: Delaware County Industrial Development Authority
\$25,000,000 Water Facilities Revenue Bonds
(Pennsylvania Suburban Water Company Project), Series A of 2002
\$3,200,000 Water Facilities Revenue Refunding Bonds
(Pennsylvania Suburban Water Company Project), Series B of 2002

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the Delaware County Industrial Development Authority (the "Authority") of the above-referenced bonds (the "Bonds"). The Bonds are being sold by the Authority pursuant to a Bond Purchase Agreement, dated December 19, 2002 (the "Purchase Contract") among the Authority, Pennsylvania Suburban Water Company (the "Company") and The GMS Group, L.L.C., as representative (the "Representative") for itself, First American Municipals, Inc. and Janney Montgomery Scott LLC (collectively, the "Underwriters"). This opinion is being delivered to you pursuant to Section 11(c)(i) of the Purchase Contract. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Purchase Contract.

The Bonds are being issued under the Pennsylvania Economic Development Financing Law, as supplemented and amended (the "Act"), and a Trust Indenture, dated as of December 15, 2002 (the "Indenture"), between the Authority and Wachovia Bank, National Association, as trustee (the "Trustee"), to finance certain projects for the benefit of the Company. The Authority and the Company have entered into a Financing Agreement, dated as of December 15, 2002 (the "Financing Agreement"), pursuant to which the Authority has agreed to loan the proceeds of the issuance and sale of the Bonds to the Company and the Company has agreed, among other things, to make payments to the Authority or its assigns in such amounts and at such times as shall be sufficient to enable the Authority to pay when due the principal of, premium if any, and interest on the Bonds.

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As the basis for this opinion we have examined such matters of law and such documents, certifications, instruments and records as we deemed necessary

to enable us to render the opinions set forth below, including the Act, applicable provisions of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder or made applicable with respect thereto (collectively, "Code"), and original counterparts or certified copies of the Authority Resolution, the Official Statement, the Purchase Contract, certifications of certain Authority officials having responsibility for issuing the Bonds given pursuant to the Code, opinions as to various matters delivered by the Solicitor of the Authority and counsel to the Company, and the other documents, certifications, instruments and records listed in the Index of Closing Documents in respect of the Bonds.

In rendering this opinion, we have relied on the opinions referred to above as to all matters of fact and law stated therein, and on the genuineness, truthfulness and completeness of all documentation examined as referred to above. We have assumed the conformity to original documents of all conformed copies and photocopies, the genuineness of all signatures and, except with respect to the Authority, the due authorization, execution and delivery of all documents, the authority to do so of all persons executing such documents and the enforceability thereof. We have further assumed that all certificates of public officials examined by us have been duly and properly given and remain accurate as of the date hereof.

Based on the foregoing and the other qualifications and limitations set forth herein, we are of the opinion that:

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

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

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

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

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We have not verified and are not passing upon and do not assume any responsibility for the accuracy, completeness or reasonableness of the statements contained in the Official Statement, except for the determinations with respect to the sections referred to in numbered paragraph 4 above, and without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, nothing has come to our attention which would lead us to believe that the Official Statement (except for financial, tabular, demographic or statistical data therein and the information contained under the headings "THE BONDS - Book-Entry Only System," "BOND INSURANCE," "ESTIMATED SOURCES AND USES OF FUNDS," "BONDHOLDERS' RISKS," and "LITIGATION" and in APPENDIX A, APPENDIX B and APPENDIX E of the Official Statement, as to which we express no view) as of its date and as of the date of Closing, contains any untrue statement of a material fact or omits to state any material fact that is required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Our opinion is specifically limited to the present internal laws of the Commonwealth of Pennsylvania and present federal law and no opinion is expressed as to the effect the law of any other jurisdiction might have upon the subject matter of the opinions expressed herein under conflict of laws principles or

otherwise. We assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur. No opinion is expressed as to any matter not set forth in the numbered paragraphs herein. This opinion is being furnished to you solely in connection with the sale of the Bonds pursuant to the Purchase Contract and may not be relied upon by any other person or for any other purpose without our prior written consent.

This opinion may not be distributed or disclosed to any person, firm or entity other than those represented at the Closing for the Bonds without our prior written consent.

Very truly yours,

OBERMAYER REBMANN MAXWELL & HIPPEL LLP

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EXHIBIT C

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 Resolution was duly adopted by the Authority at two public meetings held in accordance with the provisions of Section 13 of the act of July 3, 1986, (P.L. 388, No. 84, as amended), known as the Pennsylvania Sunshine Act; and the Authority resolution remains in full force and effect and has not been amended, repealed or superseded in any way.

3. 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.

4. 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.

5. 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.

6. The Authority has approved the distribution of the Preliminary Official Statement and the Official Statement by the Underwriters in connection with the sale of the Bonds.

7. The information contained in the Preliminary Official Statement and the Official Statement under the headings "INTRODUCTORY STATEMENT - 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.

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EXHIBIT D

FORM OF OPINIONS OF THE COMPANY'S LEGAL COUNSEL AND
COMPANY'S SENIOR VICE PRESIDENT - LAW AND ADMINISTRATION

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

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

RE: \$25,000,000 Aggregate Principal Amount of Delaware County
Industrial Development Authority Water Facilities Revenue
Bonds (Pennsylvania Suburban Water Company Project) Series A of 2002
and \$3,200,000 Aggregate Principal Amount of Delaware County
Industrial Development Authority Water Facilities Revenue Refunding
Bonds (Pennsylvania Water Company Project) Series B of 2002

Ladies and Gentlemen:

We have acted as counsel to Pennsylvania Suburban Water Company (the "Company") in connection with (i) the issuance by Delaware County Industrial Development Authority (the "Authority"), and the sale to The GMS Group, L.L.C. pursuant to that certain Bond Purchase Agreement dated December 19, 2002 (the "Purchase Agreement"), of \$25,000,000 aggregate principal amount of Delaware County Industrial Development Authority Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company) Series A of 2002 and \$3,200,000 aggregate principal amount of Delaware County Industrial Development Authority Water Facilities Revenue Refunding Bonds (Pennsylvania Suburban Water Company) Series B of 2002 (collectively, the "2002 Authority Bonds"), and (ii) the issuance and delivery of \$25,000,000 principal amount of the Company's First Mortgage Bond, 5.15% Series due 2032 (the "Series A First Mortgage Bond") and

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\$3,200,000 principal amount of the Company's First Mortgage Bond, 3.75% Series due 2010 (the "Series B First Mortgage Bond" and, together with the Series A First Mortgage Bond, the "First Mortgage Bonds"), issued under an Indenture of

Mortgage (the "Original Mortgage") dated as of January 1, 1941, as amended and supplemented by supplemental indentures thereto, including the Thirty-Seventh Supplemental Indenture dated as of December 1, 2002 (the "Thirty-Seventh Supplemental Indenture") under which J.P. Morgan Trust Company, National Association is trustee (the "Mortgage Trustee"). The Original Mortgage as amended and supplemented is hereinafter called the "Mortgage". Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Purchase Agreement.

We have examined and reviewed, among other things:

- (a) a copy of the Articles of Incorporation of the Company, as amended and restated and now in effect;
 - (b) a copy of the bylaws of the Company as now in effect;
 - (c) resolutions of the Board of Directors of the Company authorizing the execution and delivery of the Purchase Agreement, the Financing Agreement, the Thirty-Seventh Supplemental Indenture, the First Mortgage Bond, the Continuing Disclosure Agreement and the Official Statement;
 - (d) the Purchase Agreement;
 - (e) the Construction and Financing Agreement dated as of December 1, 2002 (the "Financing Agreement") between the Authority and the Company;
 - (f) the Continuing Disclosure Agreement dated December 31, 2002 (the "Continuing Disclosure Agreement") between the Company and J.P. Morgan Trust Company, National Association, as trustee for the 2002 Authority Bonds (the "Trustee");
 - (g) the Official Statement relating to the 2002 Authority Bonds dated December 19, 2002 (the "Official Statement");
 - (h) the Securities Certificate relating to the issue and sale of the First Mortgage Bond, filed by the Company with the Pennsylvania Public Utility Commission pursuant to the provisions of Chapter 19 of the Pennsylvania Public Utility Code, and a copy of the Order of the Public Utility Commission registering such Securities Certificate, certified by the Secretary of the Pennsylvania Public Utility Commission;
 - (i) a Subsistence Certificate from the Secretary of the Commonwealth with respect to the Company;
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- (j) executed counterparts of the Original Mortgage and of the Thirty-Seventh Supplemental Indenture supplemental thereto and evidence satisfactory to us of the due recordation thereof in the Counties of Berks, Bradford, Bucks, Chester, Columbia, Delaware, Lawrence, Mercer, Montgomery, Northumberland, Pike, Schuylkill and Wayne, Pennsylvania;
 - (k) the documents delivered to the Mortgage Trustee in connection with the authentication of the First Mortgage Bonds pursuant to the provisions of Sections 2(B) and 3 of Article IV of the Original Mortgage;
 - (l) the First Mortgage Bonds delivered to the Trustee at the Closing held today;
 - (m) the certificates of the Company and other documents delivered to the Mortgage Trustee at the Closing; and
 - (n) a certificate of the Company and various bringdown title searches by Commonwealth Land Title Insurance Company in the Counties of Berks, Bucks, Chester, Delaware and Montgomery, Pennsylvania, by Landy & Landy of Sayre, Pennsylvania, in Bradford County, Pennsylvania, by Fruit, Dill, Goodwin and Scholl of Sharon, Pennsylvania, in the Counties of Lawrence and Mercer, Pennsylvania, by Leavens & Roberts of Shamokin,

Pennsylvania in the Counties of Columbia, Northumberland and Schuylkill, Pennsylvania, and by Raymond L. Hamill of Honesdale, Pennsylvania in the Counties of Pike and Wayne, Pennsylvania, each dated as of a recent date (collectively, "Title Searches"), as to matters relating to title to real estate and the lien of the Mortgage thereon, on which certificate and searches we are relying for the purposes of this opinion; and

- (o) various certificates of officers of the Company relating to title to real property and the priority of any lien thereon.

In rendering this opinion, we have assumed that all signatures on documents and instruments examined by us are genuine (except signatures of the Company on the Purchase Agreement, the Thirty-Seventh Supplemental Indenture, the Financing Agreement (collectively, the "Company Documents") and the Official Statement), the authenticity of all documents submitted to us as originals and the conformity with the original documents of all documents submitted to us as copies. We have also assumed, with your permission, that none of the signatories of the documents and instruments referred to above is an affiliate of the Company within the meaning of 66 Pa.C.S. ss.2101 (1989).

As to questions of fact material to the opinions hereinafter expressed, we have relied solely and without investigation upon certificates of public officials, certificates of officers of the Company and the representations of the Company contained in the Company Documents (including the exhibits and schedules to such documents) and the certificates and other documents delivered pursuant thereto. To the extent that the opinions contained herein are given to the best of our knowledge, such knowledge means the actual knowledge of those attorneys within our firm who have provided substantive representation to the Company, without investigation and inquiry, and does not include matters of which such attorneys could be deemed to have constructive knowledge.

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In rendering this opinion, we have also assumed that each of the Company Documents has been duly authorized, executed and delivered by each party thereto (other than the Company) and that each of the Company Documents is binding and enforceable against each such party in accordance with its respective terms.

Further, as to matters relating to title to real estate and the lien of the Mortgage, we have relied exclusively upon various certificates of officers of the Company and the Title Searches and we have not made, nor undertaken to make, any investigation or inquiry with respect to title to real property or the priority of any lien thereon.

We are generally familiar with the Company's operations as a public utility within the Commonwealth of Pennsylvania (the "Commonwealth").

Based upon the foregoing and such other examination of fact and law as we have deemed necessary for purposes of this opinion, we are of the opinion that:

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 Bonds, Thirty-Seventh Supplemental Indenture and the Continuing Disclosure Agreement. The execution, delivery and performance by the Company of the Financing Agreement, the Bond Purchase Agreement, the First Mortgage Bonds, Thirty-Seventh Supplemental Indenture and the Continuing Disclosure Agreement have been duly authorized by all requisite corporate action.

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

4. The First Mortgage Bonds are not subject to the registration

requirements of the 1933 Act.

5. The Mortgage 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 Mortgage and the Thirty-Seventh 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 and such recordings are the only recordings 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.

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6. 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 may be described in the Official Statement, the lien of the Mortgage, permitted liens under the Mortgage or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company; and any real property and buildings held under lease by the Company are held by it under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company.

7. 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.

8. The Mortgage and the First Mortgage Bonds conform in all material respects as to legal matters to the descriptions thereof in the Official Statement.

Without having undertaken to determine independently the accuracy, completeness and fairness of the statements contained in the Official Statement, nothing has come to our attention in connection with our representation of the Company in respect of the issuance of the First Mortgage Bonds which leads us to believe that the information with respect to the Company and the Capital Projects contained in the Official Statement (including Appendix A and the information incorporated therein by reference) contain any untrue statement of a material fact or omit to state a material fact which is required to be stated therein or which is necessary to make such information and descriptions, in the light of the circumstances under which they were made, not misleading in any material respect.

The foregoing opinions are subject to the following qualifications:

(i) The opinion expressed in paragraph 3 is subject to the qualifications that the enforceability of the First Mortgage Bonds is subject to (i) applicable bankruptcy, insolvency, reorganization, moratorium, and other similar laws of general application relating to or affecting creditors' rights, (ii) certain provisions of Pennsylvania law affecting the availability of certain remedies, and (iii) the further qualification that the availability of specific performance, injunctive relief or other equitable remedies is subject to the discretion of the court before which any proceeding therefor may be brought.

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(ii) Our opinions are subject to limitations imposed by general principles of equity, including principles of commercial reasonableness, good faith and fair dealing (regardless of whether enforcement is considered in proceedings at law or in equity).

(iii) We express no opinion as to the enforceability with respect to any provisions purporting to waive the effect of applicable laws and remedies and any provisions releasing any party from, or requiring indemnification for, liability for gross negligence, recklessness or willful misconduct.

(iv) Any requirements in any of the documents specifying that provisions of a document may only be waived in writing may not be enforced to the extent that an oral agreement or an implied agreement by trade practice or course of conduct has been created modifying any provision of such document.

(v) We express no opinion as to the applicability to the transactions contemplated by the Company Documents of Section 548 of the Bankruptcy Code or any applicable state law relating to fraudulent transfers and obligations.

(vi) Other applicable local, state and federal laws, regulations and ordinances, court decisions and constitutional requirements may limit or render unenforceable certain of the rights or remedies contained in the Company Documents, but in our opinion, none of the same would materially impair the practical realization of the benefits intended to be provided by the Company pursuant to the Company Documents.

(vii) Our opinion is limited in all respects to the laws of the Commonwealth in effect as of the date hereof and we express no opinion as to the laws of any other jurisdiction.

(viii) This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and our statements contained in the opinion portion of this letter must be read in conjunction with the assumptions, limitations, exceptions and qualifications set forth in this letter.

(ix) The opinions herein are expressed as of the date hereof only and not as of some future date. We undertake no responsibility to advise you of any change in law or new laws, regulations or judicial decisions in the future. Nor do we assume any obligation to update or supplement this opinion to reflect any facts or circumstances which may hereafter come to our attention. References to "laws," "regulations" and "judicial decisions" herein shall include only officially published laws and regulations of the Commonwealth of Pennsylvania.

This opinion is solely for the benefit of each of you and the benefit of any subsequent holder of the First Mortgage Bonds or the 2002 Authority Bonds and may not be relied upon by any other person or for any other purpose.

Very truly yours,

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The GMS Group, L.L.C.
The Mills at Victoria
1489 Baltimore Pike
Building 200, Suite 245
Springfield, PA 19064103

Delaware County Industrial Development Authority
200 East State Street
Media, PA 19063

RE: \$25,000,000 Aggregate Principal Amount of Delaware County Industrial Development Authority Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project) Series A of 2002 and \$3,200,000 Aggregate Principal Amount of Delaware County Industrial Development Authority Water Facilities Revenue Refunding Bonds (Pennsylvania Water Company Project) Series B of 2002 (collectively, the "Bonds")

Ladies and Gentlemen:

I am Senior Vice President - Law and Administration for Pennsylvania Suburban Water Company (the "Company").

Pursuant to Section 11(c)(iii) of the Bond Purchase Agreement among the Authority, the Underwriter and the Company dated December 19, 2002 relating to the Bonds (the "Bond Purchase Agreement"), I have been asked to render an opinion to you regarding certain matters involving the Company. Capitalized terms used herein and not otherwise defined shall have the definitions as set forth in the Bond Purchase Agreement.

In my opinion:

(i) 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.

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(ii) The issue and sale of the Bonds; the issue and delivery of the First Mortgage Bonds and the compliance by the Company with all of the applicable provisions of the First Mortgage Bonds and the Mortgage; and the execution, delivery and performance by the Company of the Thirty-Seventh Supplemental Mortgage, the Financing Agreement, the 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. 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 Bonds; the execution, delivery and performance of the Bond Purchase Agreement, the Financing Agreement, the Thirty-Seventh Supplemental Mortgage, the First Mortgage Bonds and the Continuing Disclosure Agreement; or the consummation of the other transactions contemplated by the Bond Purchase Agreement or the Mortgage.

(iii) 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.

(iv) Each of the Indenture of Mortgage dated as of January 1, 1941 (the "Original Indenture"), between the Company and The Philadelphia Company for Insurance on Lives and Exacting Annuities (now J.P. Morgan Trust Company, National Association, as successor in interest), as trustee (the "Trustee") and the thirty-seven indentures supplemental thereto, including the Thirty-Seventh Supplemental Indenture dated as of December 1, 2002 between the Company and the Trustee (the Original Indenture as so supplemented and amended, the "Indenture") was duly authorized, executed and delivered by the Company and the Indenture constitutes a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights generally from time to time in effect, and subject, as to enforceability, to general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or at law).

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My opinion is limited in all respects to the laws of the Commonwealth of Pennsylvania in effect as of the date hereof and I express no opinion as to the laws of any other jurisdiction.

This opinion is limited to the matters set forth herein, no opinion may be inferred or implied beyond the matters expressly stated herein, and my statements contained in the opinion portion of this letter must be read in conjunction with the limitations, exemptions and qualifications set forth in this letter.

The information set forth herein is as of the date set forth above and the Company and I disclaim any undertaking to provide any updates or changes which thereafter may be brought to our attention.

This opinion is solely for your benefit and may not be relied upon by any other person or for any other purpose.

Very truly yours,

Roy H. Stahl

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FINANCING AGREEMENT

between

DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

PENNSYLVANIA SUBURBAN WATER COMPANY

Dated as of December 15, 2002

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

and

\$3,200,000 aggregate principal amount of
 Delaware County Industrial Development Authority
 Water Facilities Revenue Refunding Bonds
 (Pennsylvania Suburban Water Company Project)
 Series B of 2002

SUBSTANTIALLY ALL OF THE RIGHTS OF THE DELAWARE 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 DECEMBER 15, 2002 BETWEEN SAID AUTHORITY AND SAID TRUSTEE.

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FINANCING AGREEMENT

THIS FINANCING AGREEMENT, dated as of December 15, 2002 (as it may be amended, supplemented or otherwise modified and in effect from time to time, this "Agreement"), by and between the DELAWARE COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, a body corporate and politic organized and existing under and by virtue of the laws of the Commonwealth of Pennsylvania (the "Authority"), and 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 a Resolution on November 8, 2002 providing for the issuance and sale by the Authority of its Water Facilities Revenue Bonds (Pennsylvania Suburban Water Company Project), Series A of 2002, in the aggregate principal amount of \$25,000,000 (the "Series A Bonds"), to provide funds to pay the costs of a project (the "Construction Project") consisting of financing (i) the costs of cleaning, re-lining and related improvement of pipelines and related equipment and facilities (the "Facilities") located in the Counties of Delaware, Montgomery and Bucks in Pennsylvania and that are part of the Company's system for the distribution of water to its customers, and (ii) related financing costs; and

WHEREAS, the Authority adopted a Resolution on October 25, 2002 providing for the issuance and sale by the Authority of its Water Facilities Revenue Refunding Bonds (Pennsylvania Suburban Water Company Project), Series B of 2002, in the aggregate principal amount of \$3,200,000 (the "Series B Bonds" and, together with the Series A Bonds, the "2002 Bonds") to provide funds to pay the costs of a project (the "Refunding Project" and, together with the Construction Project, the "2002 Projects") consisting of the current refunding of the Authority's Water Facilities Revenue Refunding Bonds (Philadelphia Suburban Water Company Project), Series of 1992 (the "1992 Bonds"); and

WHEREAS, in connection with the issuance by the Authority of the 2002 Bonds to provide funds for the cost of the Construction Project and the Refunding Project, the Company is to enter into this Agreement under which the Authority agrees to loan the proceeds of the 2002 Bonds to the Company and the Company agrees to pay to the Authority, in repayment of the loan, amounts sufficient to pay the principal of and interest on the 2002 Bonds as and when due; and

WHEREAS, the Company has commenced the Construction Project; and

WHEREAS, the Company now desires that the Authority proceed with (i) the issuance and sale of the Series A Bonds to provide the funds to pay the

costs of the Construction Project and (ii) the issuance and sale of the Series B Bonds to provide funds to pay the costs of the Refunding Project; and

WHEREAS, the Authority has authorized the issuance and sale of the 2002 Bonds; and

WHEREAS, the 2002 Bonds are to be issued under and secured by a Trust Indenture, dated as of December 15, 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 financing of the 2002 Projects 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:

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"Completion Date" shall mean the date of completion of the improvements to the Facilities, as that date shall be certified pursuant to Section 3.07 hereof.

"Construction 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 Construction Project.

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

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

"Loan Repayments" shall mean the Construction Loan Repayments and the Refunding Loan Repayments.

"Loans" shall mean the Construction Loan and the Refunding Loan.

"Refunding 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 Refunding Project.

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

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.

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(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 of the improvement thereof pursuant to the Construction Project 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 December 10, 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 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 Construction 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 Delaware, Montgomery and Bucks in the Commonwealth, and within the authorized service area of the Company.

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

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

(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. Improvement of the Facilities; Completion. The construction of certain of the improvements to the Facilities has been commenced. The Company will cause the construction of improvements to the Facilities undertaken by the Company 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 constructing improvements to the Facilities pursuant to the Construction Project and fulfilling the obligations of the Company under this Agreement.

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The Company will maintain such records in connection with the Construction Project as to permit ready identification of the Facilities and the Cost of improvement thereof.

SECTION 3.02. Issuance of Bonds.

(a) To provide funds for payment of the Cost of the Construction Project, the Authority will issue and sell the Series A Bonds and deliver the proceeds thereof to the Trustee. All proceeds received from said sale shall be deposited in the Series A Project Fund. The Company hereby approves all of the terms, provisions and other details of the Series A Bonds and the Indenture.

(b) To provide funds for payment of the Cost of the Refunding Project, the Authority will issue and sell the Series B Bonds and deliver the proceeds thereof to the Trustee. All proceeds received from said sale shall be deposited in the Series B Project Fund. The Company hereby approves all of the terms, provisions and other details of the Series B Bonds and the Indenture.

SECTION 3.03. Payments From Project Funds.

(a) In the Indenture, the Authority has authorized and directed the Trustee to make payments from the Series A Project Fund to pay the Cost of the Construction Project upon receipt of Requisitions signed by an Authorized Company Representative, setting forth the matters required pursuant to Exhibit "B" to the Indenture.

(b) In the Indenture, the Authority has authorized and directed the Trustee to transfer from the Series B Project Fund the Escrow Agent the amount required to effect the redemption of the 1992 Bonds pursuant to the Refunding Project.

SECTION 3.04. Requisitions. The Company will cause Requisitions from the Series A Project Fund to be submitted to the Trustee as may be necessary to effect payments out of the Series A Project 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 Construction 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 Series A Bonds being used to construct improvements to the Facilities.

SECTION 3.05. Plans and Specifications. The Company may revise the Plans and Specifications at any time and from time to time prior to the Completion Date, provided that in the case of a change the amount of which, when aggregated with the amount of all prior changes by the Company to the Plans and Specifications, exceeds three percent (3%) of the principal amount of the Series A Bonds (the "Threshold Amount"), (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 that the revision of the Plans and Specifications and the expenditure of moneys from the Series A Project Fund to

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pay the Cost of the Construction Project in accordance with the revised Plans and Specifications will not adversely affect the exclusion of interest on the Series A Bonds from gross proceeds of the holders thereof for federal income purposes. The amount of any change to the Plans and Specifications with respect to which the requirements of clauses (a) and (b) have been satisfied shall not be included in determining whether the sum of changes to the Plans and Specifications has exceeded the Threshold Amount.

SECTION 3.06. Completion of Construction Project. When the Construction 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 Construction Project not then due and payable or the liability for payment of which is being contested or disputed by the Company, construction of improvements to the Facilities has been completed substantially in accordance with the Plans and Specifications, and all labor, services, materials and supplies used therefor have been paid for. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights against third parties which exist at the date thereof or which may subsequently come into being.

SECTION 3.07. Company to Pay Additional Amounts If Required. The parties acknowledge that the Construction Project is comprised of a number of discrete components that are independent of one another. If the Company has commenced a discrete component of the Construction Project and the moneys in the Series A Project Fund shall not be sufficient to pay the Costs of such component of the Construction Project undertaken by the Company, the Company will complete such component of the Construction Project and pay all Costs of Construction in excess of the moneys available in the Series A Project Fund. The Authority does not make any warranty, either express or implied, that the moneys which will be paid into the Series A Project Fund will be sufficient to pay the Costs of the Construction Project. If the Company shall pay any portion of the Costs of the Construction 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 Series A Bonds, nor shall it be entitled to any diminution in or postponement of the Construction Loan Repayments required in Section 4.02 hereof to be paid by the Company.

SECTION 3.08. Investment of Amounts in the Series A Project Fund. Any moneys held in the Series A Project 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. Loans 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:

(a) 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 Series A Bonds; and the deposit by the Authority of the proceeds of the sale of the Series A 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 Construction Loan; and

(b) to make a loan to the Company in the principal amount of \$3,200,000, such amount being equal to the aggregate principal amount of the Series B Bonds; and the deposit by the Authority of the proceeds of the sale of the Series B 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 Refunding Loan.

SECTION 4.02. Repayment of Loans and Other Amounts.

(a) Construction Loan Repayments. The Company shall pay to the Authority, as and for the repayment of the Construction Loan, (i) on the second Business Day prior to each Interest Payment Date, maturity date or date established for the redemption of the Series A Bonds, as the case may be, an amount which, together with other moneys available for the purpose in the Series A Debt Service Fund under the Indenture, will equal the sum of (x) the interest which will become due on such date on the Series A Bonds; plus (y) the principal amount of the Series A Bonds, if any, maturing on such date; plus (z) the principal amount of and premium, if any, on the Series A Bonds, if any, to be redeemed on such date; and (ii) on any date on which the Series A 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 Series A Bonds (all of the foregoing are collectively referred to herein as the "Construction 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 Construction Loan Repayment hereunder, or of the amount on deposit in the Series A Debt Service Fund, or of the amount of any credits available to the Company against any Construction Loan Repayment, and failure by the Company to receive any such prior notice, even if customarily given by the Authority or the Trustee, shall not relieve the Company of its obligation to make any Construction Loan Repayment when it is due and payable.

All such payments shall be made in 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 with respect to the Construction 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 Series A Bonds in such manner, consistent with the provisions of the Indenture, as may be directed by the Company.

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In the event the Company shall fail to make any of the payments required in this Section, such 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 Series A Bonds.

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

It is intended that the Company shall make Construction 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 Series A 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 Series A Bonds when due, whether at maturity, upon redemption, by acceleration or otherwise, the Company will pay to the Trustee forthwith the amount required to make up such deficiency.

(b) Refunding Loan Repayments. The Company shall pay to the Authority, as and for the repayment of the Refunding Loan, (i) on the second Business Day prior to each Interest Payment Date, maturity date or date established for the redemption of the Series B Bonds, as the case may be, an amount which, together with other moneys available for the purpose in the Series B Debt Service Fund under the Indenture, will equal the sum of (x) the interest which will become due on such date on the Series B Bonds; plus (y) the principal amount of the Series B Bonds, if any, maturing on such date; plus (z) the principal amount of and premium, if any, on the Series B Bonds, if any, to be redeemed on such date; and (ii) on any date on which the Series B 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 Series B Bonds (all of the foregoing are collectively referred to herein as the "Refunding 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 Refunding Loan Repayment hereunder, or of the amount on deposit in the Series B Debt Service Fund, or of the amount of any credits available to the Company against any Refunding Loan Repayment, and failure by the Company to receive any such prior notice, even if customarily given by the Authority or the Trustee, shall not relieve the Company of its obligation to make any Refunding Loan Repayment when it is due and payable.

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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 with respect to the Refunding 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 Series B 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, such 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 Series B Bonds.

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

It is intended that the Company shall make Refunding 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 Series B 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(b) 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 Series B Bonds when due, whether at maturity, upon redemption, by acceleration or otherwise, the Company will pay to the Trustee forthwith the amount required to make up such deficiency.

(c) 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 \$27,700 with respect to the Loans (less \$2,000 of such fee paid by the Company to the Authority as a deposit upon submission of the Company's financing application for the Projects);

(ii) 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;

(iii) 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;

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

(v) to the Trustee, for deposit to the credit of the Series A Rebate Fund or the Series B Rebate Fund established under the Indenture, any amount required to be deposited in such 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.

(a) To further secure the obligation of the Company to make Construction Loan Repayments, the Company will execute and deliver, contemporaneously with the execution and delivery of this Agreement, its Series A First Mortgage Bond under the Mortgage Indenture in such principal amount and with such interest rate, interest payment and maturity dates and redemption provisions as may correspond to such provisions of the Series A Bonds issued and sold by the Authority.

(b) To further secure the obligation of the Company to make Refunding Loan Repayments, the Company will execute and deliver, contemporaneously with the execution and delivery of this Agreement, its Series B First Mortgage Bond under the Mortgage Indenture in such principal amount and with such interest rate, interest payment and maturity dates and redemption provisions as may correspond to such provisions of the Series B Bonds issued and sold by the Authority.

SECTION 4.04. Assignment to Trustee.

(a) This Agreement (except for the Authority's Reserved Rights), the Construction Loan Repayments hereunder and all security therefor, including the payments under the Series A First Mortgage Bond and income earned from the investment of funds held under the Indenture, are to be assigned and pledged by the Authority to the Trustee pursuant to the Indenture as security for the payment of the principal of, premium, if any, and interest on the Series A Bonds. The Company consents to such assignment and pledge and agrees that, as to the Trustee, its obligation to make such Construction Loan Repayments and the payments required under the Series A 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.

(b) This Agreement (except for the Authority's Reserved Rights), the Refunding Loan Repayments hereunder and all security therefor, including the payments under the Series B First Mortgage Bond and income earned from the investment of funds held under the Indenture, are to be assigned and pledged by the Authority to the Trustee as security for the payment of the principal of, premium, if any, and interest on the Series B Bonds. The Company consents to such assignment and pledge and agrees that, as to the Trustee, its obligation to make such Refunding Loan Repayments and the payments required under the Series B 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.

(c) 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 Bonds.

(d) Except as provided herein and in Section 6.01, 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 Bonds 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 Bonds, nor will it create or suffer to be created any lien or charge upon the Facilities or such revenues or the First Mortgage Bonds except Permitted Encumbrances.

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 thereto and every part and parcel thereof, in good repair, working order and condition and, from time to time, will make or cause to be made all such repairs, replacements and renewals as it deems necessary. The Authority shall not operate the Facilities or have any obligation to maintain them.

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

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

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 Bonds 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 Bonds. 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 Bonds 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.

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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), (i) 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; (ii) 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 (iii) 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.

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 Bonds, (b) the Company delivers to the Authority, the Trustee and the Bond Insurer a Favorable Opinion 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.

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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 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).

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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.

ARTICLE VI

ASSIGNMENT, LEASING AND SALE OF FACILITIES

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

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

(b) No sale, assignment or lease of Facilities by or from the Company (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 lease 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.

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(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.

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 (a) and (b) of this Section, which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time prior to the expiration of such period; or

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

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(b) The Authority or the Trustee, as the assignee of the Authority, may take any action at law or in equity to collect the payments then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Agreement and under the First Mortgage Bonds. 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 Bonds, 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 Indenture, 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.

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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

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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 construction of improvements to 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, legal fees and expenses, the allocated costs and expenses of in-house counsel and legal staff and the costs and expenses of defending or preparing to defend against any claim (collectively "Losses") that may be imposed on, incurred by, or asserted against, the Indemnitees or any of them for following any instruction or other direction upon which the Trustee is authorized to rely pursuant to the terms of this Agreement and the Indenture. In addition to and not in limitation of the immediately preceding sentence, the Company also covenants and agrees to indemnify and hold the Indemnitees and each of them harmless from and against any and all Losses that may be imposed on, incurred by, or asserted against the Indemnitees or any of them in connection with or arising out of the Trustee's performance under this Agreement and the Indenture, provided the Trustee has not acted with negligence or engaged in willful misconduct. The provisions of this Section 8.08(b) shall survive the termination of this Agreement and the Indenture, the defeasance of the 2002 Bonds and the resignation or removal of the Trustee for any reason.

(c) The Company shall indemnify, hold harmless and defend the Authority, the Underwriter and the Trustee and the respective officers, members, directors, employees and agents (including, but not limited to, the Authority's, the Underwriter's and the Trustee's legal counsel) of each of them, past, present and future, against all loss, costs, damages, expenses, suits, judgments, actions and liabilities of whatever nature, including, specifically, (i) any liability under any state or federal securities laws (including but not limited to attorneys fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) and (ii) any and all costs and expense arising out of, or from, any state or federal environmental laws (including, without limitation, costs of remediation, attorney's fees and expenses, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) directly or indirectly resulting from or arising out of or related to: (A) the design, construction, installation, operation, use, 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 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.

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The Company also will pay and discharge and indemnify and hold harmless the Authority, the Underwriter 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, the Underwriter and the Trustee from, agrees that the Authority, the Underwriter and the Trustee shall not be liable for, and agrees to indemnify and hold the Authority, the Underwriter and the Trustee and their agents, employees and servants, harmless from, any liability arising out of the improvement of the Facilities or the Loans. 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, the Underwriter 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, the Underwriter or the Trustee, then, with respect to any such loss, claim, demand or liability, including expenses in connection therewith, the Authority, the Underwriter 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 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.

[Signature page follows]

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

DELAWARE COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: /s/ Henry Coleman

Chairman

PENNSYLVANIA SUBURBAN
WATER COMPANY

By: /s/ Kathy L. Pape

Vice President and Treasurer

[Signature Page to Financing Agreement]

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EXHIBIT "A"

DESCRIPTION OF THE FACILITIES

(Attached)

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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. In the hiring of an employee(s) for the manufacture of supplies, performance of work, or any other activity required under the contract or any subcontract, the Contractor, subcontractor, or any person acting on

behalf of the Contractor or subcontractor shall not, by reason of gender, race, creed, or color, discriminate against any citizen of this Commonwealth who is qualified and available to perform the work to which the employment relates.

2. Neither the Contractor nor any subcontractor nor any person on their behalf shall in any manner discriminate against or intimidate any employee involved in the manufacture of supplies, the performance of work, or any other activity required under the contract on account of gender, race, creed, or color.

3. Contractors and subcontractors shall establish and maintain a written sexual harassment policy and shall inform their employees of the policy. The policy must contain a notice that sexual harassment will not be tolerated and employees who practice it will be disciplined.

4. Contractors shall not discriminate by reason of gender, race, creed, or color against any subcontractor or supplier who is qualified to perform the work to which the contracts relate.

5. The Contractor and each subcontractor shall furnish all necessary employment documents and records to and permit access to their books, records, and accounts by the contracting agency and the Bureau of Contract Administration and Business Development for purposes of investigation, to ascertain compliance with provisions of this Nondiscrimination/Sexual Harassment Clause. If the Contractor or any subcontractor does not possess documents or records reflecting the necessary information requested, the Contractor or subcontractor shall furnish such information on reporting forms supplied by the contracting agency or the Bureau of Contract Administration and Business Development.

6. The Contractor shall include the provisions of this Nondiscrimination/Sexual Harassment Clause in every subcontract so that such provisions will be binding upon each subcontractor

7. The Commonwealth may cancel or terminate the contract, and all money due or to become due under the contract may be forfeited for a violation of the terms and conditions of this Nondiscrimination/Sexual Harassment Clause. In addition, the agency may proceed with disbarment or suspension and may place the Contractor in the Contractor Responsibility File.

PHILADELPHIA SUBURBAN CORPORATION
And SUBSIDIARIES
2003 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- o In 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies with incentive compensation.
- o The study included interviews with executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan"). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors believe it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).
- o The Plan has two components - a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.
- o The Plan is designed to provide an appropriate incentive to the officers, managers and certain other key employees of the Company. The 2003 Management Incentive Program will cover officers, managers and certain key employees of Philadelphia Suburban Corporation, and its subsidiaries that adopt the Plan.
- o The plan is periodically reviewed by the Company's outside compensation consultant and the target bonus percentages are reviewed and approved each year as part of the compensation consultant's annual review of the Company's total compensation plan.

MANAGEMENT INCENTIVE PROGRAM

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

The approach of having a plan tied to the applicable company's income performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the company and making its capital construction and acquisition programs possible. Customers also benefit from the participants' individual objectives being met, as improvements in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers.
 - The applicable company's actual after-tax net income from continuing operations or earnings before interest, taxes and

depreciation ("EBITD") relative to its annual budget will be the primary measure for the company's performance. The measurement to be used as the Company Factor for each participant will be proposed by the Chairman of the Company and approved by the Executive Compensation Committee. Each year a "Target Net Income or EBITD" level will be established. Starting in 2000, portions of the Company Rating Factor may be tied to the financial targets of more than one company for some participants. For purposes of the Plan, the Target Net Income or EBITD may differ from the budgeted net income or EBITD level. For 2003, the Target Net Income or EBITD will exclude the impact of any unbudgeted extraordinary gains or losses as a result of changes in accounting principles.

- Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the Target Net Income or EBITD. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target or EBITD for the year. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income or EBITD.
- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation (the "Individual Factor"). Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity, enhancing customer service and growing the company's customer base. Each objective has specific performance measures that are used to determine the level of achievement for each objective. A participant's target Individual Factor should be no more than 90 points, with the possibility of additional points being awarded for measurable performance above the participant's targeted performance level. Participants must achieve at least 70 points for their Individual Factor to be eligible for a bonus award under the Plan.

o Participation

- Eligible participants consist of officers, managers and certain key employees.
- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 50 percent depending on duties and responsibilities.
- For each company, the Target Bonus Percentage for all the participants within that company will be applied to either their base salary or their salary grade midpoint as designated by the Company's chairman, subject to the approval of the Executive Compensation and Employee Benefits Committee.
- Actual bonuses may range from 0, if the company's financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance -- both Company and individual -- is rated at the maximum.
- New employees who are hired into a position that is eligible to participate in the Management Incentive Plan, will normally be eligible to receive a portion of the bonus calculated in accordance with this Plan that is pro-rated based on the number of full calendar months between the new employee's hire date and the end of the calendar year.
- Employees who would otherwise be eligible to participate in this Management Incentive Plan, but who leave employment with the company either voluntarily, involuntarily or as a result of retirement, will not receive a bonus for the year in which

their employment terminates. If an employee who would otherwise be eligible to participate in this Management Incentive Plan dies, the company will pay the deceased employee's estate a portion of the bonus the deceased employee would otherwise have been entitled to assuming a 100% Individual Rating Factor, but pro-rated for the number of full calendar months the employee completed before his or her death.

o Company Performance

-- Company performance will be measured on the following schedule:

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

-- The actual Company Factor should be calculated by interpolation between the points shown in the table above.

-- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Rating for purposes of this Plan.

o Individual Performance

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

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

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

Sample Calculations

o Example 1

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

EMPLOYEE RECOGNITION ("CHAIRMAN'S AWARD") PROGRAM

1. In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman's Award program to reward non-union employees not eligible for the management bonus plan for superior performance that contains costs, improves efficiency and productivity of the workforce and better serves our customers. Awards may also be made for a special action or heroic deed, or for a project that positively impacts the performance or image of the Company.
2. Awards will be made from an annual pool designated by the Chairman of PSC with the approval of the Executive Compensation and Employee Benefits Committee. Unused funds will not be carried over to the next year. If financial performance warrants, management may request permission from the Executive Compensation and Employee Benefits Committee for special awards under the program.
3. In general, Chairman's Awards will not be made to employees of a company that does not achieve at least 90% of its net income objective for the year.
4. Awards may be made throughout the year, however, no more than one-third of a company's Chairman's Award pool may be awarded until the company's final net income for the year is determined.
5. Nominations for employees to receive Chairman's Awards will be made to the applicable officer and should include documentation on the reasons for the recommendations. The applicable officer will review the nominations and forward their recommendations to the Chairman of PSC.
6. The Chairman will determine the individuals to actually receive a bonus and the amount.

Philadelphia Suburban Corporation
Selected Portions of Annual Report to Shareholders for the year ended
December 31, 2002

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

FORWARD-LOOKING STATEMENTS

This report by Philadelphia Suburban Corporation ("PSC," "we" or "us") contains, in addition to historical information, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve risks, uncertainties and other factors, many of which are outside our control, that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. In some cases you can identify forward-looking statements where statements are preceded by, followed by or include the words "believes," "expects," "anticipates," "plans," "future," "potential" or the negative of such terms or similar expressions. Forward-looking statements in this report, include, but are not limited to, statements regarding:

- o recovery of capital expenditures and expenses in rates;
- o projected capital expenditures and related funding requirements;
- o dividend payment projections;
- o future financing plans;
- o future pension contributions;
- o opportunities for future acquisitions and success of pending acquisitions;
- o acquisition-related costs and synergies;
- o the capacity of our water supplies and facilities; and
- o general economic conditions.

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

- o changes in general economic, business and financial market conditions;
- o changes in government regulations and policies, including public utility regulations and policies;
- o changes in environmental conditions, including those that result in water use restrictions;
- o abnormal weather conditions;
- o changes in capital requirements;
- o changes in our credit rating;
- o our ability to integrate businesses, technologies or services which we may acquire;
- o our ability to manage the expansion of our business;
- o the extent to which we are able to develop and market new and improved services;
- o unanticipated capital requirements;

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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)

- o increasing difficulties in obtaining insurance and increased cost of insurance;
- o cost overruns relating to improvements or the expansion of our operations; and
- o civil disturbance or terroristic threats or acts.

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

GENERAL INFORMATION

Philadelphia Suburban Corporation is the holding company for regulated utilities providing water or wastewater services to approximately two 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 18 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 Ohio, Illinois, New Jersey and Maine. Other of our smaller subsidiaries provide water and wastewater services in parts of Pennsylvania, North Carolina and Ohio. Some of our subsidiaries provide wastewater services to a population of approximately 40,000 people in Pennsylvania, Illinois, New Jersey and North Carolina. During 2002 and each of the previous four years, the operating revenues associated with wastewater services have been less than 3% of our consolidated operating revenues. In addition, we provide water and wastewater service to approximately 45,000 people through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories. We are the largest U.S.-based investor-owned water utility based on number of customers.

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

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

Following are our selected five-year financial statistics:

Years ended December 31,	2002	2001	2000	1999	1998
Operating revenues	\$322,028	\$307,280	\$274,014	\$256,546	\$250,718
Net income available to common stock	\$67,154	\$60,005	\$52,784	\$36,275	\$44,820
Income from operations before non-recurring items (a)	\$63,464	\$60,005	\$50,548	\$44,871	\$40,917
Operating Statistics					
Selected operating results as a percentage of operating revenues:					
Operations and maintenance	36.6%	36.4%	37.1%	38.5%	39.9%
Depreciation and amortization	13.8%	13.1%	12.4%	12.4%	11.8%
Taxes other than income taxes	6.0%	6.8%	8.2%	8.5%	8.7%
Interest expense, net	12.5%	11.9%	12.9%	12.9%	12.8%
Allowance for funds used during construction	(0.4)%	(0.4)%	(1.0)%	(0.8)%	(0.5)%
Net income available to common stock	20.9%	19.5%	19.3%	14.1%	17.9%
Effective tax rates	38.5%	39.3%	39.2%	42.2%	40.1%

Income from operations before non-recurring items is a measure that is not determined in accordance with generally accepted accounting principles ("GAAP") and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure it for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business.

(a) Non-recurring items represent the 2002 gain of \$3,690 (\$5,676 pre-tax) realized on the sale of a portion of our Ashtabula, Ohio water system, the 2000 gain of \$2,236 (\$4,041 pre-tax) for the partial recovery of the merger costs related to the 1999 merger with Consumers Water Company, the 1999 charges of \$8,596 (\$10,121 pre-tax) for transaction costs and restructuring costs related to the merger with Consumers Water Company, and the 1998 gain of \$3,903 (\$6,680 pre-tax) on the sale of Consumer Water Company's New Hampshire system.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Following are our selected five-year operating and sales statistics:

Years ended December 31,		2002	2001	2000	1999	1998
Customers	Residential water	535,506	526,776	512,442	497,937	478,160
	Commercial water	30,355	29,745	29,317	29,241	27,612
	Industrial water	1,423	1,454	1,446	1,430	1,327
	Other water	16,466	9,947	9,500	9,067	8,277
	Wastewater	21,724	19,615	12,441	11,262	10,583
	Operating contracts	21,312	14,973	14,073	8,525	7,888
	Total	626,786	602,510	579,219	557,462	533,847
Operating Revenues	Residential water	\$197,190	\$188,303	\$170,597	\$154,881	\$156,523
	Commercial water	55,962	53,103	47,109	45,192	44,894
	Industrial water	17,221	16,141	14,943	13,944	13,970
	Other water	36,255	35,681	29,582	31,999	25,672
	Wastewater	8,210	6,960	5,414	5,235	4,755
	Other	7,190	7,092	6,369	5,295	4,904
	Total	\$322,028	\$307,280	\$274,014	\$256,546	\$250,718

RESULTS OF OPERATIONS

Our net income has grown at an annual compound rate of approximately 13.8% during the five-year period ended December 31, 2002. During this same period, operating revenues grew at a compound rate of 6.5% and total expenses, exclusive of income taxes, grew at a compound rate of 4.4%.

Operating Revenues

The growth in revenues over the past five years is a result of increases in both the customer base and in water rates. The number of customers increased at an annual compound rate of 3.5% in the past five years primarily as a result of acquisitions of local water systems. Acquisitions made during the five-year period ended December 31, 2002 have provided water and wastewater revenues of approximately \$20,191 in 2002, \$17,082 in 2001 and \$10,296 in 2000. Excluding the effect of acquisitions, our customer base increased at a five-year annual compound rate of 0.9%. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$14,700 in 2002, \$13,100 in 2001 and \$15,400 in 2000. In addition to water and wastewater operating revenues, we had other non-regulated revenues that were primarily associated with operating and management contracts, and data processing service fees of \$7,190 in 2002, \$7,092 in 2001 and \$6,369 in 2000.

Economic Regulation - Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. Accordingly, we maintain a rate case management capability to provide that the tariffs of the utility operations reflect, to the extent practicable, the timely recovery of increases in costs of

(In thousands of dollars, except per share amounts)

operations, capital, taxes, energy, materials and compliance with environmental regulations. In assessing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in the capital structure and changes in other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions. The rates for some divisions of our Ohio subsidiary can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utility Commission of Ohio. Currently, two of the six regulated divisions in Ohio are operating under such rate ordinances.

On August 1, 2002, the Pennsylvania Public Utility Commission ("PAPUC") granted Pennsylvania Suburban Water Company 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 increased by \$30,626 and the DSIC was reset to zero. In April 2000, the PAPUC approved a rate settlement reached between Pennsylvania Suburban Water Company and the parties actively litigating the joint rate application filed in October 1999. The April 2000 settlement was designed to increase annual revenues by \$17,000 or 9.4% above the level in effect at the time of the filing. The rates in effect at the time of the filing included \$7,347 in DSIC ranging from 0.33% to 5%. Consequently, the April 2000 settlement resulted in a total base rate increase of \$24,347 above the rates in effect before the DSIC was applied. The settlement agreement also provided for the recovery of up to \$5,295 (the merger costs allocable to our Pennsylvania operations) of the \$10,121 (\$8,596 after-tax) in merger costs that were expensed in 1999 in connection with the CWC merger. During 2000, a regulatory asset was established to reflect the amount to be recovered as a result of the rate settlement. This resulted in a recovery of \$1,136 of restructuring costs and \$2,905 of merger transaction costs as reported on the Consolidated Statements of Income and Comprehensive Income.

Operating subsidiaries located in other states were allowed annual rate increases of \$3,024 in 2002, \$4,799 in 2001 and \$698 in 2000 resulting from thirteen, nine and four rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$1,403 in 2002, \$4,200 in 2001 and \$450 in 2000. The operating subsidiaries currently have four rate requests in process requesting a \$777 increase in annual revenues. These requests are currently under review by the respective state regulatory commission.

Distribution System Improvement Charges - The PAPUC permits Pennsylvania water utilities to add a surcharge to their water bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating distribution systems. Prior to the DSIC mechanism being approved in 1996, water utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in base rates is known as regulatory lag. The DSIC mechanism is intended to substantially reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems.

The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. The DSIC is capped at 5% of base rates. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a PAPUC benchmark. The DSIC in 2002 was set at 5% until new base rates became effective in August 2002, at which point the DSIC was reset to zero. The DSIC in 2001 ranged from the first quarter amount of 2.2% and increased each successive quarter to 5% in the fourth quarter. The DSIC has been set at 1.96% in the first quarter of 2003. The DSIC provided revenues of \$5,301 in 2002, \$6,672 in 2001 and \$2,301 in 2000.

In 2001, the Illinois Commerce Commission issued regulations implementing an infrastructure surcharge mechanism known as a Qualifying Infrastructure Plant Surcharge ("QIPS") for use by Illinois water and wastewater utilities. QIPS is similar to DSIC, however, it is established annually and prospectively based on anticipated qualifying capital expenditures, and it includes a broader range of qualifying capital expenditures, including certain wastewater capital expenditures. Our operating subsidiary in Illinois received approval to add a QIPS to its bills in three of its operating divisions beginning January 1, 2002 at various rates ranging from 1.06% to 2.49% which generated \$217 of revenues in 2002. The QIPS remains in effect at rates ranging from 3.13% to 5.0% in 2003.

Rate Surcharges - In addition to its base rates and DSIC, our Pennsylvania subsidiary has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated in base rates. Operating revenues were reduced by rate credits of \$286 in 2002, \$639 in 2001 and increased by rate surcharges of \$74 in 2000. In the first quarter of 2003, the rate surcharge has been set at 0.14%.

Sendout - "Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. In general during this period, an extended period of dry weather increases water consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. Conservation efforts, construction codes which require the use of low flow plumbing fixtures, as well as mandated water use restrictions in response to drought conditions, also affect water consumption.

The geographic diversity of our customer base reduces our exposure to extreme or unusual weather conditions in any one area of our service territory. Our customers are located in the following states: 66% in Pennsylvania, 14% in Ohio, 10% in Illinois, 6% in New Jersey, 3% in Maine and 1% in North Carolina.

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 other times of the year, 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 where approximately 275,000 of our customers are located. A drought emergency imposes a ban on nonessential water use. In June and July 2002, drought restrictions were relaxed in three of the five counties we serve in southeastern Pennsylvania, moving from the mandatory drought emergency to a voluntary drought warning. However, by early September 2002, the Commonwealth of Pennsylvania reinstated the drought emergency in the three counties where restrictions had been relaxed because of hot, dry weather in August. In November and December 2002, the Commonwealth of

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

Pennsylvania removed the drought restrictions in the counties we serve in Pennsylvania. Water use restrictions were also imposed and relaxed at various times during 2002 in our service territories in New Jersey. Currently there are no drought warnings or restrictions in any of the areas we serve.

Operations and Maintenance Expenses

Operations and maintenance expenses totaled \$117,735 in 2002, \$111,885 in 2001 and \$101,741 in 2000. Most elements of operating costs are subject to the effects of inflation, as well as the effects of changes in the number of customers served, in water consumption and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and to a lesser extent the electric market in some of the states in which we operate. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture. Operations and maintenance expenses increased in 2002 as compared to 2001 by \$5,850 or 5.2% due to additional operating costs associated with acquisitions, transaction costs related to planned and completed acquisitions, increased insurance expense, higher bad debt expense and increased wages as a result of normal wage rate increases.

Operations and maintenance expenses increased in 2001 as compared to 2000 by \$10,144 or 10.0% due to additional operating costs associated with acquisitions, increased water production expenses associated with the higher water consumption, and increased wage and benefit costs.

Depreciation and Amortization Expenses

Depreciation expense was \$41,424 in 2002, \$37,979 in 2001 and \$32,271 in 2000, and has increased principally as a result of the significant capital expenditures made to expand and improve the utility facilities, and as a result of acquisitions of water systems.

Amortization expense was \$2,898 in 2002, \$2,189 in 2001 and \$1,829 in 2000. The increase in 2002 and 2001 is due to the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes

Taxes other than income taxes decreased by \$1,420 or 6.8% in 2002 as compared to 2001, and decreased by \$1,633 or 7.3% in 2001 as compared to 2000. The decrease in 2002 is 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 and the Capital Stock Tax declined due to a reduction in the base on which the tax is applied and a legislated decrease in the tax rate. The decrease in 2001 is due to a reduction in state and local taxes and a decrease in the Pennsylvania Capital Stock Tax.

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Recovery of Restructuring Costs

During 2000, a recovery of restructuring costs of \$1,136 resulted from an April 2000 rate settlement. These costs were incurred in 1999 in connection with the Consumers Water Company merger and included severances and exit costs associated with the closing of CWC's corporate office.

Interest Expense, net

Net interest expense was \$40,396 in 2002, \$39,859 in 2001 and \$40,360

in 2000. Interest income of \$287, \$367 and \$402 was netted against interest expense for the years ended December 31, 2002, 2001 and 2000, respectively. Interest expense increased in 2002 primarily as a result of higher levels of borrowings to finance capital expenditures, offset partially by the effects of decreased interest rates on borrowings. Interest expense decreased in 2001 primarily as a result of decreased interest rates on short-term borrowings, offset in part by increased borrowings to fund capital expenditures and the acquisition of other utility systems. Interest expense during 2002 was favorably impacted by a reduction in the weighted cost of long-term debt from 7.0% at December 31, 2001 to 6.6% at December 31, 2002.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was \$1,389 in 2002, \$1,222 in 2001 and \$2,688 in 2000 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate. The increase in 2002 is a result of an increase in the average balance of CWIP to which AFUDC is applied, offset in part by a decrease in the AFUDC rate which is based on short-term interest rates. The decrease in 2001 is a result of a reduction in the average balance of CWIP, to which AFUDC is applied, due to the completion of a \$35,000 water treatment plant in the third quarter of 2000 and a decrease in the AFUDC rate. Construction commenced on this facility in 1997 and was completed in 2000.

Gain on Sale of Water System

Gain on sale of water system represents the gain realized on the December 2002 sale of a portion of the Ashtabula, Ohio water system. The sale provided \$12,118 of net proceeds and resulted in a fourth quarter 2002 gain of \$5,676.

Gain on Sale of Other Assets

Gain on sale of other assets totaled \$2,079 in 2002, \$3,384 in 2001 and \$5,076 in 2000. Gain on sale of land totaled \$900 in 2002, \$3,018 in 2001 and \$1,524 in 2000. Gain on sale of marketable securities totaled \$1,179 in 2002, \$366 in 2001 and \$3,552 in 2000.

Recovery of Merger Transaction Costs

During 2000, a recovery of merger transaction costs of \$2,905 was recognized resulting from the April 2000 rate settlement. These costs were recorded in 1999 when the CWC merger was completed and represented the fees for investment bankers, attorneys, accountants and other administrative charges.

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

Minority Interest

Minority interest was \$0 in 2002, \$0 in 2001 and \$103 in 2000. The change in 2001 is a result of substantially eliminating the minority ownership of three operating subsidiaries during 2001.

Income Taxes

Our effective income tax rate was 38.5% in 2002, 39.3% in 2001 and 39.2% in 2000. The changes in the effective tax rates in 2002 and 2001 are due to differences between tax deductible expenses and book expenses.

Summary

Operating income was \$140,504 in 2002, \$134,340 in 2001 and \$116,789 in 2000 and net income available to common stock was \$67,154, \$60,005 in 2001 and \$52,784 in 2000. Our operating results have been affected by non-recurring items in 2002 and 2000. Net income for 2002 includes a gain of \$5,676 (\$3,690 after-tax or \$0.05 per share) on the sale of a portion of our Ashtabula, Ohio water system. Operating income and net income for 2000 includes the gain for the partial recovery of restructuring costs related to the CWC merger of \$1,136 (\$665 after tax or \$0.015 per share). Net income for 2000 includes the gain for the partial recovery of merger transaction costs related to the CWC merger of \$2,905 (\$1,571 after tax or \$0.025 per share). Diluted net income per share was \$0.97 in 2002, \$0.87 in 2001 and \$0.81 in 2000. Diluted income per share exclusive of the aforementioned non-recurring items (for 2002, \$0.05 per share from the gain on the sale of water system; and for 2000, \$0.04 per share for the partial recovery of the merger costs related to the merger with Consumers Water Company), was \$0.92 in 2002, \$0.87 in 2001 and \$0.77 in 2000. Diluted income per share exclusive of non-recurring items is a measure that is not determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income per share as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure it for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business. The changes in the per share income in 2002 and 2001 over the previous years were due to the aforementioned changes in income and impacted by a 0.7% and 5.1% increase in the average number of common shares outstanding during 2002 and 2001, respectively.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

Fourth Quarter Results

Net income available to common stock was \$18,646 in the fourth quarter of 2002 and \$12,209 in the same period of 2001. The change in net income is due to a \$6,705 increase in operating revenues, a gain on the sale of water systems of \$5,676 realized in the fourth quarter of 2002, and a reduction in taxes other than income taxes expense of \$604, offset by increased depreciation expense of \$1,331. The increase in operating revenues was a result of an increase in water rates, higher water consumption and additional revenues from acquisitions. There was no comparable gain on the sale of a water system in the prior year. Depreciation expense increased due to utility plant additions and acquisitions made since the fourth quarter of 2001.

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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)

Effects of Inflation

As a regulated enterprise, our rates are established to provide recovery of costs and a return on our investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on our operating results are not significant.

Security

In light of concerns regarding security in the wake of the September

11, 2001 terrorist attacks, we have increased security measures at our facilities. These increased security measures were not made in response to any specific threat. We are in contact with federal, state and local authorities and industry trade associations regarding current information on possible threats and security measures for water utility operations. The cost of the increased security measures is expected to be recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

FINANCIAL CONDITION

Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 2002 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1998	\$ 84,362	\$ 29,349	\$ 87,973
1999	74,103	29,217	96,383
2000	86,972	30,406	129,740
2001	102,165	34,234	124,088
2002	121,560	36,789	136,164
	\$ 469,162	\$ 159,995	\$ 574,348

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants; new water mains and customer service lines; rehabilitation of existing water mains and hydrants; and water meters. During this five-year period, we received \$32,291 of customer advances and contributions in aid of construction to finance new water mains and related facilities which are not included in the capital expenditures presented in the above table. In addition, during this period, we have made sinking fund contributions and retired debt in the amount of \$83,570, retired \$7,262 of preferred stock, and have refunded \$21,502 of customer advances for construction. Despite an annual increase in the common dividends declared and paid on our common stock over the past five years, the total common dividends paid in 1999 declined as compared to 1998 due to the exchange of the Consumers Water Company common stock for our common stock.

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(In thousands of dollars, except per share amounts)

During the past five years, we have also expended \$102,496 related to the acquisitions of utility systems, primarily water utilities and some wastewater utilities, including the issuance of 1,119,239 shares of common stock. These acquisitions were accounted for as purchases. In March 1999, we completed a merger with Consumers Water Company. On the date of the merger, we issued 20,334,398 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became our wholly-owned subsidiary. The CWC merger has been accounted for as a pooling-of-interests.

In December 2002, as a result of the settlement of a condemnation action, our Ohio operating subsidiary sold to Ashtabula County, Ohio the water utility assets in the unincorporated areas of Ashtabula County and the area

within the Village of Geneva on the Lake for net proceeds of \$12,118, which was in excess of the book value for these assets. The proceeds were used to pay down short-term debt, and the sale resulted in the recognition in the fourth quarter of 2002 of a gain on the sale of these assets of \$5,676 (or an after-tax gain of \$3,690 and \$0.05 per share). We continue to operate this water system for Ashtabula County under a one-year operating contract that began upon the closing of the sale that should provide over \$300 in operating revenues in 2003. The water utility assets sold represents less than 1% of our total assets, and the total number of customers included in the water system sold represents less than 1% of our total customer base. In addition to the operating contract revenues, the interest savings associated with paying off debt with the sale's proceeds will offset the loss of this water system's normal contribution to income. In 1998, CWC's New Hampshire operations were sold under the New Hampshire condemnation statute for \$33,728, net of certain closing costs, which was used to pay down long-term debt. Despite these transactions, our strategy continues to be to acquire additional water and wastewater systems, maintain our existing systems, and to actively oppose unilateral efforts by municipal governments to acquire any of our operations.

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$321,517 of First Mortgage Bonds and obtained other short-term borrowings during the past five years. In September 2000, we sold 2,066,406 shares of common stock in a public offering for net proceeds of \$29,689. The proceeds of this offering were used to make an equity contribution to PSW. In 1998, we sold 1,953,125 shares of common stock in a public offering for net proceeds of \$25,840. The proceeds of this offering were used to make a \$19,000 equity contribution to PSW and to repay short-term debt. At December 31, 2002, we had short-term lines of credit and other credit facilities of \$180,000, of which \$86,887 was available. Our short-term lines of credit and other credit facilities are either payable on demand or have a 364-day term.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that provides a convenient and economical way to purchase shares of Philadelphia Suburban Corporation. Under the direct stock purchase portion of the Plan, shares are sold throughout the year and the shares are obtained by our transfer agent in the open market. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 2002 dividend payment, holders of 17.7% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. During the past five years, we have sold 1,723,140 original issue shares of common stock for net proceeds of \$27,110 through the dividend reinvestment portion of the Plan and the proceeds were used to invest in our operating subsidiaries, to repay short-term debt, and for general corporate purposes.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

In May 2002, Vivendi Environnement, S.A., which through its affiliates (collectively "Vivendi") owned approximately 16.8% of our outstanding common stock, advised us of its decision to sell its investment in PSC. Vivendi announced that its decision was part of its overall strategy to divest non-core assets and focus on other business strategies. In September 2002, in order to facilitate the orderly re-distribution of the shares held by Vivendi into the market, we completed a secondary offering of 9,885,256 shares of PSC common stock held by Vivendi. The number of outstanding shares of common stock was not changed and we did not receive any proceeds as a result of this secondary offering. In addition, in October 2002 we repurchased 1,210,620 shares of PSC common stock representing the remainder of the shares of PSC common stock held by Vivendi. The repurchase of shares was funded with proceeds of \$22,000 from a short-term credit facility. It is our current intention to repay these short-term borrowings with proceeds from the issuance of common stock or an instrument convertible into PSC common stock.

In addition, the Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. Under this authorization, there were no shares

repurchased in 2002 and 2001. We repurchased 288,750 shares in 2000 at a net cost of \$3,500. As of December 31, 2002, 328,967 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

As of December 31, 2002, our contractual cash obligations are as follows:

	Payments Due By Period						Total
	2003	2004	2005	2006	2007	Thereafter	
Long-term debt	\$ 34,265	\$ 40,423	\$ 41,447	\$ 17,072	\$ 15,953	\$ 468,015	\$ 617,175
Operating leases	2,003	1,449	1,140	768	587	3,195	9,142
Unconditional purchase obligations	7,613	7,599	7,453	7,453	7,934	76,695	114,747
Total	43,881	\$ 49,471	\$ 50,040	\$ 25,293	\$ 24,474	\$ 547,905	\$ 741,064

The amounts reported as long-term debt in the above table represent sinking fund obligations and debt maturities that are due in the periods noted. We lease motor vehicles, buildings, land and other equipment under operating leases that are noncancelable prior to their expiration. The unconditional purchase obligations represent our commitment to purchase minimum quantities of water as stipulated in agreements with other water purveyors. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. In addition to these obligations, we make refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these refund amounts are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable.

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

Our planned 2003 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$144,331 of which \$62,799 is for DSIC-qualified projects in Pennsylvania and QIPS-qualified projects in Illinois. We have increased our capital spending for infrastructure rehabilitation in response to the DSIC and QIPS and should these infrastructure surcharge mechanisms be discontinued for any reason, which is not anticipated, we would likely reduce our capital program significantly. Our 2003 capital program, along with \$34,265 of sinking fund obligations and debt maturities, \$9,616 of other contractual cash obligations as presented on the contractual cash obligations table above, is expected to be financed through internally-generated funds, our revolving credit facilities, the issuance of equity and the issuance of new long-term debt.

Future utility construction in the period 2004 through 2007, including recurring programs, such as the ongoing replacement of water meters, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$500,000. We anticipate that less than one-half of these expenditures will require external financing of debt and the additional issuance of common stock through our dividend reinvestment plan and possible future public equity offerings. We expect to refinance \$114,895 of sinking fund

obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them, including the AquaSource acquisition - see section titled "Impact of AquaSource Acquisition."

We continue to hold acquisition discussions with several water systems. In general, acquisitions are expected to be financed through the issuance of equity (for the acquisition of some investor-owned systems) or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings. For a discussion of our funding plan for the AquaSource acquisition, see section titled "Impact of AquaSource Acquisition."

Our primary source of liquidity is cash flows from operations, borrowings under various short-term lines of credit and other credit facilities, and advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief and water consumption. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we refinance our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings to enable them to secure the capital they will need and to maintain satisfactory debt coverage ratios.

Impact of AquaSource Acquisition

We entered into a purchase agreement with DQE, Inc. ("DQE") and AquaSource, Inc. ("AquaSource") dated July 29, 2002, as amended by Amendment No. 1 dated March 4, 2003, pursuant to which we agreed to acquire four operating water and wastewater subsidiaries of AquaSource and assume selected, integrated operating and maintenance contracts and related assets. The purchase agreement

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)

provides for a target cash purchase price of approximately \$205 million subject to various adjustments. If the transaction is completed, we will purchase operating utilities, including assets and franchises that serve approximately 130,000 water and wastewater customer accounts in 11 states, and selected water and wastewater operating contracts that serve approximately 40,000 customers in seven of these states. More than 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 approval of the shareholders of DQE or PSC. We expect to obtain the requisite regulatory approvals in mid-2003. 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.

If the AquaSource transaction is completed, it is expected to provide approximately \$70 million in additional operating revenues on an annual basis, add approximately 300 employees to our workforce, and is anticipated to be accretive to earnings. The acquisition provides an expanded platform from which to extend our growth-through-acquisition strategy of acquiring water and wastewater utility systems that are near or adjacent to our existing service territories. The AquaSource operations are comprised of approximately 600 small systems, which are generally clustered in regions to achieve some level of operating efficiency. However, the fragmented nature of the operations will likely result in the ratio of operations and maintenance expenses in relation to

operating revenues ("operating expense ratio") being higher than the level that PSC currently achieves with its existing operations. While we intend to implement management systems over time that will provide the ability to control costs and improve efficiencies, the effect of this acquisition will be to increase our overall operating expense ratio. As a result of this planned acquisition, we expect our annual capital expenditure program to increase by approximately \$27 million over the existing capital program planned and we believe these expenditures will be financed in a manner consistent with our existing capital program.

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, because generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2002, the debt maturities by period and the weighted average interest rate for fixed-rate, long-term debt are as follows:

	2003	2004	2005	2006	2007	Thereafter	Total	Fair Value
Long-term debt (fixed rate)	\$ 34,265	\$ 40,423	\$ 41,447	\$ 17,072	\$ 15,953	\$ 468,015	\$ 617,175	\$ 660,436
Weighted average interest rate	6.81%	6.27%	7.12%	6.96%	6.56%	6.51%	6.56%	

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)

From time to time, we make investments in marketable equity securities. As a result, we are exposed to the risk of changes in equity prices for the "available for sale" marketable equity securities. As of December 31, 2002, our carrying value of marketable equity securities was \$1,336, which reflects the market value of such securities. The market risks to which we are exposed are consistent with the risks to which we were exposed in the prior year.

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2002	2001	2000	1999	1998
Long-term debt*	55.6%	52.9%	52.4%	53.8%	51.9%
Preferred stock*	0.0%	0.1%	0.2%	0.2%	0.4%
Common stockholders' equity	44.4%	47.0%	47.4%	46.0%	47.7%
	100.0%	100.0%	100.0%	100.0%	100.0%

*Includes current portion.

The changes in the capitalization ratios primarily result from the issuance of common stock over the past five years, and the issuance of debt to finance our acquisitions and capital program and the previously mentioned repurchase of common stock from Vivendi in 2002.

As a result of our entering into the purchase agreement for AquaSource in July 2002, Standard and Poor's Rating Services ("S&P") placed PSW on Creditwatch with negative implications (see section titled "Impact of AquaSource Acquisition"). The Creditwatch listing reflects concern by S&P, that should we fund the acquisition entirely with debt, PSW's credit rating could change. We anticipate that after the acquisition closes, the Creditwatch listing will be lifted.

Dividends on Common Stock

We have paid common dividends consecutively for 58 years. In 2002, our Board of Directors authorized an increase of 5.7% in the dividend rate over the amount we previously paid. As a result of this authorization, beginning with the dividend payment in December 2002, the annual dividend rate increased to \$0.56 per share. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the 1999 CWC pooling, our common dividends paid have averaged 61.3% of net income.

CRITICAL ACCOUNTING POLICIES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgements of matters of uncertainty. Changes in the estimates or other judgements included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," the review for impairment of our long-lived assets which consist primarily of Utility Plant in Service and regulatory assets, and our accounting for pensions and other postretirement benefits.

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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)

Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgement and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates are determined.

SFAS No. 71 stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

In accordance with the requirements of SFAS No. 144, "Accounting for

the Impairment or Disposal of Long-Lived Assets", we review for impairment of our long-lived assets, including Utility Plant in Service. We also review regulatory assets for the continued application of SFAS No. 71. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. In accordance with SFAS No. 71, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

We maintain a qualified defined benefit pension plan and plans that provide for certain postretirement benefits other than pensions. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from our actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that we recognize.

Our discount rate is based on a market rate for a recognized-rating agency's high-quality long-term bond portfolio with durations matching the expected payouts under our retirement plans. Our pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2002 pension expense by \$250 and the pension liabilities by \$4,700. The present values of PSC's future pension and other postretirement obligations were determined using discount rates of 6.75% at December 31, 2002 and 7.25% at December 31, 2001. Our expense under these plans is determined using the discount rate as of the beginning of the year, which was 7.25% for 2002, and will be 6.75% for 2003.

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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)

Our expected return on assets is determined by evaluating the asset class return expectations with our advisors as well as actual, long-term, historical results of our asset returns. Our pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2002 pension expense by \$275. For 2002, we used a 9.0% expected return on assets assumption, and will lower this assumption to 8.5% in 2003. Over the last ten years, our pension plan assets have generated an average annual investment return of 8.3%. Although those returns are below the long-term assumption, this measurement period includes the three-year period ended December 31, 2002 of declining performance of the equity markets. For the seven-year period ended December 31, 1999, prior to this adverse investment climate, the average annual investment return on PSC's pension plan assets was 14.8%. The expected return on assets is based on a targeted allocation of 65% equities and 35% fixed income. We believe that our actual long-term asset allocation on average will approximate the targeted allocation.

During 2002, the fair market value of our pension plan assets declined due to negative equity market performance and our discount rate decreased resulting in an increase in pension liabilities. As a result we recorded an additional minimum liability of \$4,731 on our consolidated balance sheet as of December 31, 2002. The additional minimum liability equaled the excess of the accumulated benefit obligation over the fair value of plan assets and resulted in the establishment of a regulatory asset, as we anticipate recovery of the future, increased pension expense through customer rates. Although the additional minimum liability did not impact 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 the discount rate. Our required pension contribution in 2003 is anticipated to approximate \$1,600. We expect our required pension contribution to increase in 2004 as compared to 2003, and may even increase in 2005 as well, depending on the future performance of our pension assets. We expect future changes in the amount of contributions and expense recognized will be properly included in customer rates.

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 and have not yet determined the effect of adoption on our results of operations or financial position.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We adopted SFAS No. 144 on January 1, 2002 as required and it did not have a material impact on our results of operations or financial position.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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 believe this statement will not have a material impact on our results of operations and financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. We have adopted the disclosure provisions of the interpretation for the year ended December 31, 2002 and it did not have an impact on our disclosures. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. We are currently evaluating the provisions of this interpretation to determine the impact of adoption.

In December 2002, the FASB approved SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No.

123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We adopted SFAS No. 148 for the year ended December 31, 2002 as required and it did not have an impact on our results of operations or financial position.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Report of Management

The consolidated financial statements and related information for the years ended December 31, 2002, 2001 and 2000 were prepared by management in accordance with accounting principles generally accepted in the United States of America and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility, dissemination of policies and procedures and periodic reviews by our internal audit director.

The Company's independent accountants, PricewaterhouseCoopers LLP, provide an independent review of management's reporting of results of operations and financial condition. PricewaterhouseCoopers has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Audit Committee of the Board of Directors selects and evaluates the Company's independent accountants and reviews the scope and results of their audits. The Audit Committee also reviews the integrity of the Company's financial reporting process, system of internal controls and other significant financial matters. The Audit Committee meets regularly with management, our internal audit director and the independent accountants. The Audit Committee held three meetings in 2002.

/s/ Nicholas DeBenedictis

/s/ David P. Smeltzer

Nicholas DeBenedictis
Chairman &
President

David P. Smeltzer
Senior Vice President - Finance

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Report of Independent Accountants

To the Board of Directors and Stockholders of
Philadelphia Suburban Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization and of cash flow present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with

accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Philadelphia, PA
January 31, 2003

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
Years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Operating revenues	\$ 322,028	\$ 307,280	\$ 274,014
Costs and expenses:			
Operations and maintenance	117,735	111,885	101,741
Depreciation	41,424	37,979	32,271
Amortization	2,898	2,189	1,829
Taxes other than income taxes	19,467	20,887	22,520
Recovery of restructuring costs	-	-	(1,136)
	181,524	172,940	157,225
Operating income	140,504	134,340	116,789
Other expense (income):			
Interest expense, net	40,396	39,859	40,360
Allowance for funds used during construction	(1,389)	(1,222)	(2,688)
Gain on sale of water system	(5,676)	-	-
Gain on sale of other assets	(2,079)	(3,384)	(5,076)
Recovery of merger transaction costs	-	-	(2,905)
Minority interest	-	-	103
Income before income taxes	109,252	99,087	86,995
Provision for income taxes	42,046	38,976	34,105
Net income	67,206	60,111	52,890
Dividends on preferred stock	52	106	106
Net income available to common stock	\$ 67,154	\$ 60,005	\$ 52,784
Net income	\$ 67,206	\$ 60,111	\$ 52,890
Other comprehensive income (loss), net of tax:			
Unrealized gains on securities	104	39	908
Reclassification adjustment for gains reported in net income	(767)	(239)	(2,002)
	(663)	(200)	(1,094)

Comprehensive income	\$ 66,543	\$ 59,911	\$ 51,796
<hr/>			
Net income per common share:			
Basic	\$ 0.98	\$ 0.88	\$ 0.82
Diluted	\$ 0.97	\$ 0.87	\$ 0.81
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Average common shares outstanding during the period:			
Basic	68,539	67,873	64,759
Diluted	69,231	68,755	65,414
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See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2002 and 2001

	2002	2001
	-----	-----
Assets		
Property, plant and equipment, at cost	\$ 1,836,892	\$ 1,677,061
Less accumulated depreciation	346,051	308,946
Net property, plant and equipment	1,490,841	1,368,115
<hr/>		
Current assets:		
Cash and cash equivalents	5,915	1,010
Accounts receivable and unbilled revenues, net	57,680	56,331
Inventory, materials and supplies	4,555	4,446
Prepayments and other current assets	2,758	2,854
Total current assets	70,908	64,641
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Regulatory assets	88,175	79,669
Deferred charges and other assets, net	23,391	22,915
Funds restricted for construction activity	43,754	19,768
	\$ 1,717,069	\$ 1,555,108
<hr/>		
Liabilities and Stockholders' Equity		
Stockholders' equity:		
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 70,067,784 and 69,300,346 in 2002 and 2001	\$ 35,034	\$ 34,650
Capital in excess of par value	317,871	304,039
Retained earnings	180,047	149,682
Minority interest	503	787
Treasury stock, at cost, 2,151,350 and 913,877 shares in 2002 and 2001	(40,421)	(17,167)
Accumulated other comprehensive income	63	726
Total stockholders' equity	493,097	472,717
<hr/>		
6.05% Series B cumulative preferred stock	172	1,116
Long-term debt, excluding current portion	582,910	516,520
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	34,265	14,935
Loans payable	115,113	109,668
Accounts payable	31,058	27,667
Accrued interest	9,269	8,302
Accrued taxes	14,500	17,634
Other accrued liabilities	22,326	19,198
Total current liabilities	226,531	197,404
<hr/>		
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	187,300	167,577
Customers' advances for construction	69,790	59,886
Other	13,330	9,204
Total deferred credits and other liabilities	270,420	236,667
<hr/>		
Contributions in aid of construction	143,939	130,684
	\$ 1,717,069	\$ 1,555,108
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See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2002 and 2001

	2002	2001
Stockholders' equity:		
Common stock, \$.50 par value	\$ 35,034	\$ 34,650
Capital in excess of par value	317,871	304,039
Retained earnings	180,047	149,682
Minority interest	503	787
Treasury stock, at cost	(40,421)	(17,167)
Accumulated other comprehensive income	63	726
Total stockholders' equity	493,097	472,717
6.05% Series B cumulative preferred stock	172	1,116
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	18,009	8,325
2.50% to 2.99%	14,052	-
3.00% to 3.49%	4,733	-
3.50% to 3.99%	3,200	-
4.00% to 4.99%	8,135	9,023
5.00% to 5.49%	90,955	50,545
5.50% to 5.99%	86,260	30,660
6.00% to 6.49%	126,360	160,525
6.50% to 6.99%	52,000	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%	17,497	17,595
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,054	53,535
9.50% to 9.99%	44,637	46,031
10.00% to 10.50%	6,000	6,000
Total First Mortgage Bonds	614,892	529,439
Note payable, 6.05%, due 2006	978	644
Installment note payable, 9%, due in equal annual payments through 2013	1,305	1,372
Current portion of long-term debt	617,175	531,455
Long-term debt, excluding current portion	34,265	14,935
Total capitalization	\$ 1,076,179	\$ 990,353

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 67,206	\$ 60,111	\$ 52,890
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	44,322	40,168	34,100
Deferred income taxes	18,470	14,935	10,885
Gain on sale of water system	(5,676)	-	-
Gain on sale of other assets	(2,079)	(3,384)	(5,076)
Net increase in receivables, inventory and prepayments	(742)	(5,295)	(5,531)
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	1,346	7,045	4,247
Payment of Competitive Transition Charge	-	(11,465)	-
Other	(1,287)	50	(4,543)
Net cash flows from operating activities	121,560	102,165	86,972
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$1,389, \$1,222 and \$2,688	(136,164)	(124,088)	(129,740)
Acquisitions of water and wastewater systems	(8,914)	(9,517)	(3,546)
Net increase in funds restricted for construction activity	(23,986)	(15,806)	(3,962)
Net proceeds from the sale of water system	12,118	-	-
Net proceeds from the sale of other assets	6,258	5,211	5,896
Other	(362)	(173)	(1,711)
Net cash flows used in investing activities	(151,050)	(144,373)	(133,063)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	10,266	5,175	7,603
Repayments of customers' advances	(5,070)	(4,652)	(4,642)
Net proceeds (repayments) of short-term debt	5,445	8,385	(14,075)
Proceeds from long-term debt	119,350	64,024	67,791
Repayments of long-term debt	(43,279)	(8,498)	(13,289)
Redemption of preferred stock	(944)	(644)	-
Proceeds from issuing common stock	10,611	13,522	37,190
Repurchase of common stock	(24,109)	(2,493)	(4,383)
Dividends paid on preferred stock	(52)	(106)	(106)
Dividends paid on common stock	(36,789)	(34,234)	(30,406)
Other	(1,034)	(1,348)	(163)
Net cash flows from financing activities	34,395	39,131	45,520
Net increase (decrease) in cash and cash equivalents	4,905	(3,077)	(571)
Cash and cash equivalents at beginning of year	1,010	4,087	4,658
Cash and cash equivalents at end of year	\$ 5,915	\$ 1,010	\$ 4,087
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 38,040	\$ 38,637	\$ 36,507
Income taxes	\$ 24,165	\$ 19,388	\$ 23,008

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Acquisitions and Employee Stock and and Incentive Plans footnotes for description of non-cash activities.

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Summary of Significant Accounting Policies

Nature of Operations - Philadelphia Suburban Corporation (the "Company" or "PSC") is the holding company for regulated utilities providing water or wastewater services 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 and wastewater service to customers in the suburban areas north and west of the City of Philadelphia and in 18 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 customers in Ohio, Illinois, New Jersey and Maine. Our subsidiaries serve 583,750 water customers. Some of our subsidiaries

provide wastewater services to 21,724 customers in Pennsylvania, Illinois, New Jersey and North Carolina. In addition, the Company provides water and wastewater service to 21,312 customers through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories.

Regulation - The operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Regulated public utilities follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by state regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated where appropriate.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Nonregulated revenues are recognized when services are performed and are primarily associated with operating and maintenance contracts and data processing service fees. Nonregulated revenues totaled \$7,190 in 2002, \$7,092 in 2001 and \$6,369 in 2000.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2002, utility plant includes a net credit acquisition adjustment of \$6,210, which is being amortized over 20 to 40 years. Consistent with the Company's rate settlements, \$633 was amortized during 2002, \$545 was amortized during 2001 and \$541 was amortized during 2000.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, have been reviewed for impairment. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used

during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2002, 2001 and 2000 was \$9, \$0 and \$334 respectively. No interest was capitalized by our nonregulated businesses.

Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized by the straight-line method over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery in accordance with SFAS No. 71.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse the Company for its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of \$17,271, \$10,196 and \$6,060 in 2002, 2001 and 2000.

Contributions in Aid of Construction - Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is determined using the first-in, first-out method.

Stock-Based Compensation - The Company accounts for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation expense related to granting of stock options has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the following table as if compensation cost

for stock options was determined as of the grant date under the fair value method:

	Years Ended December 31,		
	2002	2001	2000
Net income available to common stock:			
As reported	\$ 67,154	\$ 60,005	\$ 52,784
Less: pro forma expense related to stock options granted, net of tax effects	(1,268)	(931)	(767)
Pro forma	\$ 65,886	\$ 59,074	\$ 52,017
Basic net income per share:			
As reported	\$ 0.98	\$ 0.88	\$ 0.82
Pro forma	0.96	0.87	0.80
Diluted net income per share:			
As reported	\$ 0.97	\$ 0.87	\$ 0.81
Pro forma	0.95	0.86	0.80

The per share weighted-average fair value at the date of grant for stock options granted during 2002, 2001 and 2000 was \$6.44, \$5.58 and \$2.82 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001	2000
Expected life (years)	5.5	5.2	10
Interest rate	4.9%	5.0%	6.4%
Volatility	34.2%	32.7%	21.1%
Dividend yield	2.6%	2.6%	3.9%

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year's presentation.

Recent Accounting Pronouncements - In 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 and has not yet determined the effect of adoption on its results of operations or financial position.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The Company adopted SFAS No. 144 on January 1, 2002 as required and it 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 an impact on the Company's 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. The Company believes this statement will not have a material impact on our results of operations and financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. We have adopted

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

the disclosure provisions of the interpretation for the year ended December 31, 2002 and it did not have an impact on our disclosures. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Company is currently evaluating the provisions of this interpretation to determine the impact of adoption.

In December 2002, the FASB approved SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of SFAS No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted SFAS No. 148 for the year ended December 31, 2002 as required and it did not have an impact on the Company's results of operations or financial position.

Acquisitions

PSC entered into a purchase agreement with DQE, Inc. ("DQE") and AquaSource, Inc. ("AquaSource") dated July 29, 2002, as amended by Amendment No. 1 dated March 4, 2003, pursuant to which PSC agreed to acquire four operating water and wastewater subsidiaries of AquaSource 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 subject to various adjustments. If the transaction is completed, PSC will purchase operating utilities, including assets and franchises that serve approximately 130,000 water and wastewater customer accounts in 11 states, and selected water and wastewater operating contracts that serve approximately 40,000 customers in seven of these states. Over 80% of the customers in the businesses PSC is purchasing are located in Texas, Florida, Virginia and Indiana. The acquisition is subject to certain regulatory approvals, but does not require approval of the shareholders of DQE or PSC. The Company expects to obtain the requisite regulatory approvals in mid-2003. The Company intends 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 PSC 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.

During 2002, the Company completed 25 acquisitions or other growth ventures in the various states in which the Company operates. The total purchase price of \$11,659 for the systems acquired in 2002 consisted of \$8,914 in cash and the issuance of 143,091 shares of the Company's common stock. The increase in annual revenues resulting from the acquired systems approximate \$3,180 (unaudited) and operating revenues included in the consolidated financial statements during the period owned by the Company was \$1,341.

During 2001, the Company completed 20 acquisitions or other growth ventures in the various states. The total purchase price of \$14,878 for the systems acquired in 2001 consisted of \$9,517 in cash and the issuance of 331,710 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2001 were \$4,736 in 2002 and \$3,432 in 2001.

During 2000, the Company completed 18 acquisitions or other growth ventures including the Company's entry into a sixth state, North Carolina. The total purchase price of \$11,840 for the systems acquired in 2000 consisted of \$3,546 in cash and the issuance of 578,813 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2000 were \$2,681 in 2002, \$2,623 in 2001 and \$394 in 2000.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

On February 4, 2003, the Company entered into a mutual termination agreement with Pennichuck Corporation terminating PSC's planned acquisition of Pennichuck Corporation, which was originally announced in April 2002. The mutual decision to terminate the merger agreement was in response to a recent referendum of the City of Nashua, New Hampshire, authorizing Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck Corporation's water works system. As a result of the recent events, both PSC and Pennichuck Corporation concluded that the termination of the merger agreement was in the best interests of both companies.

Disposition

In December 2002, as a result of the settlement of a condemnation action, the Company's Ohio operating subsidiary sold to Ashtabula County, Ohio the water utility assets in the unincorporated areas of Ashtabula County and the area within the Village of Geneva on the Lake for \$12,118, net of certain closing costs. The sale was in excess of the book value for these assets and the sale generated a gain of \$5,676 (or an after-tax gain of \$3,690 and \$0.05 per share) recorded in the fourth quarter of 2002. We continue to operate this water system for Ashtabula County under a one-year operating contract that began upon the closing of the sale. The water utility assets sold represent less than 1% of

our total assets, and the total number of customers included in the water system sold represents less than 1% of our total customer base.

Property, Plant and Equipment

	December 31,		Approximate range of remaining lives
	2002	2001	
Utility plant and equipment:			
Mains and accessories	\$ 815,066	\$ 739,208	50 to 85 years
Services, hydrants, treatment plants and reservoirs	432,564	372,328	16 to 58 years
Operations structures and water tanks	140,211	129,898	14 to 61 years
Miscellaneous pumping and purification equipment	182,415	175,072	12 to 50 years
Meters, data processing, transportation and operating equipment	194,073	163,387	5 to 50 years
Land, intangibles and other non-depreciable assets	45,692	42,895	-
Utility Plant and equipment	1,810,021	1,622,788	
Utility construction work in progress	23,964	51,531	-
Non-utility plant and equipment	2,907	2,742	2 to 40 years
Total property, plant and equipment	\$1,836,892	\$1,677,061	

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Accounts Receivable

	December 31,	
	2002	2001
Billed utility revenue	\$ 34,733	\$ 33,476
Unbilled utility revenue	26,007	23,493
Other	520	1,844
	61,260	58,813
Less allowance for doubtful accounts	3,580	2,482
Net accounts receivable	\$ 57,680	\$ 56,331

The Company's customers are located in the following states: 66% in Pennsylvania, 14% in Ohio, 10% in Illinois, 6% in New Jersey, 3% in Maine and 1% in North Carolina. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2002, 2001 or 2000. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2002	2001	2000
Balance at January 1,	\$ 2,482	\$ 1,907	\$ 1,309
Amounts charged to expense	3,182	2,557	1,884
Accounts written off	(2,375)	(2,179)	(1,377)

Recoveries of accounts written off	291	197	91
Balance at December 31,	\$ 3,580	\$ 2,482	\$ 1,907

Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates. Except for income taxes and the competitive transition charge payment, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and (liabilities) are as follows:

	December 31,	
	2002	2001
Income taxes, asset	\$ 67,658	\$ 64,764
Income taxes, liability	(3,574)	(3,684)
CTC payment	9,172	10,319
Postretirement benefits	8,334	1,374
Merger Costs	3,229	3,759
Water tank painting	2,114	2,088
Rate case filing expenses & other	1,242	1,049
	\$ 88,175	\$ 79,669

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. The regulatory asset associated with the Competitive Transition Charge payment represents the full payoff in 2001, net of amortization, of the allocable share of a Competitive Transition Charge ("CTC") as negotiated by PSW from its electric distribution company, PECO Energy Company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. Rate recovery of the \$11,465 CTC payment began in 2000 and is expected to

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

conclude in 2010. Postretirement benefits include pension and other postretirement benefits. The pension costs include deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required, and in addition includes an additional minimum liability for pensions as a result of a decline in the fair market value of plan assets and a decline in the discount rate assumed for pension obligations. The additional minimum liability equals the excess of the accumulated benefit obligation over the fair value of plan assets. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates. The regulatory asset related to the recovery of merger costs represents the portion of the CWC merger costs that will be recovered in rates as a result of a rate settlement in 2000 and is being amortized over the recovery period. Expenses associated with water tank painting are deferred and amortized over a period of time as approved

in the regulatory process. The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to three years.

Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2002	2001	2000
Current:			
Federal	\$ 16,619	\$ 18,935	\$ 19,888
State	6,647	5,106	4,900
	-----	-----	-----
	23,266	24,041	24,788
Deferred:			
Federal	17,921	13,048	8,371
State	859	1,887	946
	-----	-----	-----
	18,780	14,935	9,317
Total tax expense	-----	-----	-----
	\$ 42,046	\$ 38,976	\$ 34,105
	=====	=====	=====

The statutory Federal tax rate is 35% and the state corporate net income tax rates range from 7.18% to 9.99% for all years presented. The Company's Federal income tax returns for all years through 1999 have been closed.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense are as follows:

	Years Ended December 31,		
	2002	2001	2000
Computed Federal tax expense at statutory rate	\$ 38,238	\$ 34,680	\$ 30,448
Increase in tax expense for depreciation expense to be recovered in future rates	558	452	353
Merger transaction costs	(680)	-	120
Charitable contribution	(98)	-	(83)
Deduction for PSC common dividends paid under employee benefit plan	(207)	-	-
Amortization of deferred investment tax credits	(283)	(276)	(287)
Prior year rate reductions	(315)	(322)	(311)
State income taxes, net of federal tax benefit	4,879	4,545	3,799
Other, net	(46)	(103)	66
	-----	-----	-----
Actual income tax expense	\$ 42,046	\$ 38,976	\$ 34,105
	=====	=====	=====

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31,	
	2002	2001
Deferred tax assets:		
Customers' advances for construction	\$ 17,787	\$ 18,060
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	4,015	1,689
Other	-	290
Total gross deferred tax assets	21,802	20,039
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	177,620	156,332
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	23,972	23,626
Deferred investment tax credit	6,903	7,219
Unrealized gain on marketable securities	83	439
Other	524	-
Total gross deferred tax liabilities	209,102	187,616
Net deferred tax liability	\$187,300	\$167,577

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Commitments

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases are expected to approximate \$7,610 through 2007. The Company purchased approximately \$7,079, \$5,807 and \$5,592 of water under these agreements during the years ended December 31, 2002, 2001 and 2000, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. During the next five years, \$3,977 of future minimum lease payments are due: \$1,609 in 2003, \$1,055 in 2004, \$746 in 2005, \$374 in 2006 and \$193 in 2007. PSW leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2012 and 2052 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, \$394 of lease payments for land, subject to the aforesaid adjustment, are due.

Rent expense was \$2,182, \$2,281 and \$1,815 for the years ended December 31, 2002, 2001 and 2000, respectively.

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 2002 and 2001. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW and CWC to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's and CWC's stock. As of December 31, 2002, approximately \$252,000 of PSW's and \$45,000 of CWC's retained earnings were free of these restrictions. Certain supplemental indentures also prohibit PSW and CWC from making loans to, or purchasing the stock of, the Company.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. The future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2003	2004	2005	2006	2007	Thereafter
0.00% to 2.49%	\$ 96	\$ 831	\$ 836	\$ 817	\$ 813	\$ 14,616
2.50% to 2.99%	-	278	287	297	307	12,883
3.00% to 3.49%	-	129	132	129	135	4,208
3.50% to 3.99%	400	400	400	400	400	1,200
4.00% to 4.99%	-	-	-	-	-	8,135
5.00% to 5.49%	60	70	70	75	75	90,605
5.50% to 5.99%	10,000	10,000	-	-	-	66,260
6.00% to 6.49%	-	15,000	-	344	644	111,350
6.50% to 6.99%	10,000	-	10,000	10,000	10,000	12,000
7.00% to 7.49%	12,000	12,000	28,000	2,000	2,000	2,000
7.50% to 7.99%	-	-	-	-	-	23,000
8.00% to 8.49%	-	-	-	-	-	17,497
8.50% to 8.99%	-	-	-	-	-	9,000
9.00% to 9.49%	554	560	567	575	584	51,519
9.50% to 9.99%	1,155	1,155	1,155	2,435	995	37,742
10.00% to 10.50%	-	-	-	-	-	6,000
Total	\$ 34,265	\$ 40,423	\$ 41,447	\$17,072	\$15,953	\$ 468,015

PSW has a five-year \$300,000 medium-term note program through December 2004 that provides for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. The notes issued under this program are secured by the Thirty-Third Supplement to the trust indenture relating to PSW's First Mortgage Bonds. In June 2002, PSW issued First Mortgage Bonds through the program of \$25,000 5.93% Series due 2012. In October 2001, PSW issued First Mortgage Bonds through the program of \$15,000 6.21% Series due 2011. The proceeds from these issuances were used to fund acquisitions, to reduce the balance of PSW's short-term debt and for PSW's ongoing capital program.

In June 2002, PSW issued \$25,000 tax-exempt bonds due in 2032 at a rate of 5.55%. In December 2002, PSW issued \$25,000 tax-exempt bonds due in 2032 at a rate of 5.15%. The proceeds from the bonds issued are restricted to funding the

costs of certain capital projects. At various times during 2002, PSW and other operating subsidiaries issued notes payable and tax-exempt bonds in aggregate of \$47,765 at a weighted average interest rate of 4.32% due at various times ranging from 2007 to 2032. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries, to redeem \$26,835 of First Mortgage Bonds of operating subsidiaries ranging from 3.75% to 5.6% and redeem PSC preferred stock of \$944. As of December 31, 2002, the Trustees for five issues held \$43,754 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity. In connection with acquisitions completed in 2002, \$6,313 of long-term debt was assumed as a result of acquisitions at an interest rate of 1% due in various years.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In September 2001, one of CWC's operating subsidiaries issued \$12,000 of tax-exempt bonds due in 2031 at a rate of 5.00%. In November 2001, PSW issued \$30,000 in First Mortgage Bonds 5.35% Series due 2031 as security for an equal amount of Bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds are restricted to funding the costs of certain capital projects. At various times during 2001, PSW and other operating subsidiaries issued notes payable in aggregate of \$6,725 at a weighted average interest rate of 2.8% due at various times in 2006, 2021, 2022 and 2031. The proceeds from the notes payable issued in 2001 were used to reduce a portion of the balance of short-term debt at each of the respective operating subsidiaries, to redeem \$2,400 of 9.6% First Mortgage Bonds of one of CWC's operating subsidiaries through an early redemption, and redeem PSC preferred stock of \$644. The pro forma weighted cost of long-term debt at December 31, 2002 and 2001 was 6.6% and 7.0%, respectively.

In October 2002, a 364-day note payable of \$22,000 was issued by PSC, the proceeds of which were used to repurchase shares of PSC common stock from Vivendi Environnement, S.A. Interest under this facility is based, at the borrower's option, on either a defined base rate or an adjusted London Interbank Offered Rate corresponding to the interest period selected.

PSW has a \$70,000 364-day revolving credit facility with four banks and CWC has a \$20,000 364-day bank revolving credit facility. Funds borrowed under these agreements are classified as loans payable and are used to provide working capital. As of December 31, 2002 and 2001, funds borrowed under the PSW revolving credit agreements were \$35,664 and \$64,882, respectively, and \$12,902 and \$13,500 were borrowed under the CWC revolving credit agreement, respectively. Interest under these facilities is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. These agreements restrict the total amount of short-term borrowings of PSW and CWC. A commitment fee ranging from 1/4 to 1/10 of 1% is charged on the unused portion of the revolving credit agreements. The average cost of borrowing under these facilities was 2.3% and 4.5%, and the average borrowing was \$63,529 and \$60,417, during 2002 and 2001, respectively. The maximum amount outstanding at the end of any one month was \$83,836 in 2002 and \$78,382 in 2001.

At December 31, 2002 and 2001, the Company had combined short-term lines of credit of \$90,000 and \$105,500, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was \$48,527 and \$61,232 during 2002 and 2001, respectively. The maximum amount outstanding at the end of any one month was \$75,575 in 2002 and \$76,858 in 2001. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2002 and 2001 was 2.8% and 5.2%, respectively.

Interest income of \$287, \$367 and \$402 was netted against interest

expense on the consolidated statements of income for the years ended December 31, 2002, 2001 and 2000, respectively. The total interest cost was \$40,683, \$40,226 and \$40,762 in 2002, 2001 and 2000, including amounts capitalized of \$1,389, \$1,222 and \$2,688, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2002	2001

Carrying amount	\$617,175	\$ 531,455
Estimated fair value	660,436	562,740

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of \$69,790 and \$59,886 at December 31, 2002 and 2001, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Preferred Stock

At December 31, 2002, the Company had 1,770,819 shares of Series Preferred Stock with a \$1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated 32,200 shares as Series B Preferred Stock, \$1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. In 1996, the Company issued all of the 6.05% Series B Preferred Stock in connection with an acquisition. The Series B Preferred Stock is recorded on the balance sheet at its liquidation value of \$100 per share. Dividends on the Series B Preferred Stock are cumulative and payable quarterly. PSC is not permitted to pay dividends on common stock unless provision has been made for payment of the dividends on the Series B Preferred Stock. Under the provisions of this issue, the holders may require the Company to redeem their shares, in whole or in part, at the liquidation value beginning December 1, 1998 and the Company may elect to redeem up to 20% of this issue each year beginning December 1, 2001 and, at the holders' option, this redemption may be made in cash or through the issuance of debt with a five-year maturity at an interest rate of 6.05% per annum. As of December 31, 2002, the Company has provided for all dividends accrued on the Series B Preferred Stock. At various times since 1999, an aggregate of 30,480 shares of Series B Preferred Stock were redeemed at the liquidation value of \$100 per share, including 9,440 shares in 2002.

Stockholders' Equity

At December 31, 2002, the Company had 100,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding at December 31, 2002, 2001 and 2000 were 67,916,434, 68,386,469 and 67,094,905, respectively. Treasury shares held at December 31, 2002, 2001 and 2000 were 2,151,350, 913,877 and 844,376, respectively.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The following table summarizes the activity of common stockholders' equity:

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1999	\$ 20,814	\$ (11,270)	\$251,440	\$101,533	\$ 2,020	\$364,537
Net income	-	-	-	52,784	-	52,784
Other comprehensive income, net of income tax of \$489	-	-	-	-	908	908
Reclassification adjustment for gains reported in net income, net of income tax of \$1,375	-	-	-	-	(2,002)	(2,002)
Dividends	-	-	-	(30,406)	-	(30,406)
Stock split	5,319	-	(5,319)	-	-	-
Stock issued for acquisitions	228	-	8,067	-	-	8,295
Sale of stock	803	307	34,318	-	-	35,428
Repurchase of stock	-	(4,383)	-	-	-	(4,383)
Equity Compensation Plan	12	-	545	-	-	557
Exercise of stock options	84	-	1,677	-	-	1,761
Employee stock plans tax benefits	-	-	285	-	-	285
Balance at December 31, 2000	27,260	(15,346)	291,013	123,911	926	427,764
Net income	-	-	-	60,005	-	60,005
Other comprehensive income, net of income tax of \$19	-	-	-	-	39	39
Reclassification adjustment for gains reported in net income, net of income tax of \$127	-	-	-	-	(239)	(239)
Dividends	-	-	-	(34,234)	-	(34,234)
Stock split	6,829	-	(6,829)	-	-	-
Stock issued for acquisitions	133	-	5,228	-	-	5,361
Sale of stock	128	672	5,783	-	-	6,583
Repurchase of stock	-	(2,493)	-	-	-	(2,493)
Equity Compensation Plan	3	-	141	-	-	144
Exercise of stock options	297	-	6,642	-	-	6,939
Employee stock plans tax benefits	-	-	2,061	-	-	2,061
Balance at December 31, 2001	34,650	(17,167)	304,039	149,682	726	471,930
Net income	-	-	-	67,154	-	67,154
Other comprehensive income, net of income tax of \$56	-	-	-	-	104	104
Reclassification adjustment for gains reported in net income, net of income tax of (\$412)	-	-	-	-	(767)	(767)
Dividends	-	-	-	(36,789)	-	(36,789)
Stock issued for acquisitions	71	-	2,674	-	-	2,745
Sale of stock	161	855	6,220	-	-	7,236
Repurchase of stock	-	(24,109)	-	-	-	(24,109)
Equity Compensation Plan	15	-	598	-	-	613
Exercise of stock options	137	-	3,237	-	-	3,374
Employee stock plans tax benefits	-	-	1,103	-	-	1,103
Balance at December 31, 2002	\$ 35,034	\$ (40,421)	\$317,871	\$180,047	\$ 63	\$492,594

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In May 2002, Vivendi Environnement, S.A., which through its affiliates (collectively "Vivendi") owned approximately 16.8% of our outstanding common stock, advised the Company of their decision to sell its investment in PSC. Vivendi announced that its decision was part of its overall strategy to divest non-core assets and focus on other business strategies. In September 2002, in order to facilitate the orderly re-distribution of the shares held by Vivendi into the market, the Company completed a secondary offering of 9,885,256 shares of PSC common stock held by Vivendi. The number of outstanding shares of common stock was not changed and the Company did not receive any proceeds as a result of this secondary offering. In addition, in October 2002 the Company repurchased 1,210,620 shares of PSC common stock representing the remainder of the shares of PSC common stock held by Vivendi. The repurchase of shares was funded with proceeds of \$22,000 from a short-term credit facility. It is the Company'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.

In addition, the Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. Under this authorization, there were no shares repurchased in 2002 and 2001. During 2000, 288,750 shares were repurchased at a net cost of \$3,500. As of December 31, 2002, 328,967 shares remain available for purchase by the Company.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. During 2002, 2001 and 2000, under the dividend reinvestment portion of the Plan, 321,667, 303,906 and 419,766 original issue shares of common stock were sold providing the Company with proceeds of \$6,407, \$5,980 and \$5,482, respectively.

In September 2000, the Company issued 2,066,406 shares of common stock through a public offering, providing net proceeds of \$29,689 which were used to make an equity contribution to PSW. PSW used the contribution from the Company to reduce the balance of its revolving credit loan.

The Company has a shelf registration statement on file with the Securities and Exchange Commission to permit the offering from time to time of shares of common stock and shares of preferred stock for acquisitions. During 2002, 2001 and 2000, 143,091, 331,710 and 578,813 shares of common stock totaling \$2,745, \$5,361 and \$8,295, respectively, were issued to acquire water and wastewater systems. The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other funds.

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income for unrealized gains on securities is reported in the Stockholders' Equity section of the Consolidated Balance Sheets and the related other comprehensive income is reported in the Consolidated Statements of Income and Comprehensive Income.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted

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

	Years ended December 31,		
	2002	2001	2000
Average common shares outstanding during the period for Basic computation	68,539	67,873	64,759
Dilutive effect of employee stock options	692	882	655
Average common shares outstanding during the period for Diluted computation	69,231	68,755	65,414

Equity per common share was \$7.25 and \$6.90 at December 31, 2002 and 2001, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of \$.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

Employee Stock and Incentive Plans

Under the 1994 Equity Compensation Plan ("1994 Plan"), as amended and restated effective March 3, 1998, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In November 1998, the Shareholders authorized an increase to the number of shares from 1,900,000 shares to 2,900,000 shares of common stock for issuance under the 1994 Plan. The maximum number of shares that may be subject to grants under the 1994 Plan to any one individual in any one year is 150,000. Awards under this plan are made by a committee of the Board of Directors.

Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The

following table summarizes stock option transactions for the two plans:

As of or For the Years Ended December 31,						
	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	2,047,810	\$ 13.32	2,263,803	\$ 10.69	2,005,194	\$ 10.12
Granted	494,250	20.80	535,679	19.10	560,609	11.75
Terminated	(6,612)	16.24	(18,183)	12.13	(70,911)	13.17
Exercised	(271,342)	12.28	(733,489)	9.39	(231,089)	7.58
Outstanding, end of year	2,264,106	\$ 15.07	2,047,810	\$ 13.32	2,263,803	\$ 10.69
Exercisable, end of year	1,244,386	\$ 12.13	1,015,708	\$ 10.79	1,295,561	\$ 9.21

Options exercised during 2002 ranged in price from \$5.48 per share to \$19.10 per share. At December 31, 2002, 415,322 options under the 1994 Plan were still available for grant. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 2002:

Range of prices:	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$ 5.48 - 8.99	242,850	3.3	\$ 6.49	242,850	\$ 6.49
\$ 9.00 - 13.99	837,001	6.7	12.04	662,425	12.13
\$14.00 - 18.99	201,898	5.2	14.17	201,377	14.16
\$19.00 - 19.99	491,106	9.4	19.10	137,734	19.10
\$20.00 - 20.81	491,251	9.5	20.81	-	-
	2,264,106	7.2	\$ 15.07	1,244,386	\$12.13

Under SFAS No. 123 "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the Summary of Significant Accounting Policies - Stock-Based Compensation as if compensation cost for stock options was determined as of the grant date under the fair value method.

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the

restriction period. During 2002, 2001 and 2000, 29,625, 7,875 and 36,875 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company maintains a qualified, defined benefit pension plan that covers a majority of its full-time employees. Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts.

The Company's pension expense (credit) includes the following components:

	Years Ended December 31,		
	2002	2001	2000
Benefits earned during the year	3,205	\$ 2,986	\$ 2,553
Interest cost on projected benefit obligation	8,501	8,261	7,612
Expected return on plan assets	(9,945)	(10,891)	(11,281)
Net amortization and deferral	203	(206)	(1,283)
Capitalized costs	(66)	(49)	(56)
Rate-regulated adjustment	-	(553)	1,403
Special termination benefits	-	-	43
Net pension cost (credit)	1,898	\$ (452)	\$ (1,009)

The rate-regulated adjustment set forth above is required for 2001 and 2000 in order to reflect pension expense (credit) for the Company in accordance with the method used in establishing water rates. During 2001 and 2000, the Company instituted early retirement and restructuring programs. These actions resulted in additional termination benefits of \$43 in 2000.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The Company's costs for postretirement benefits other than pensions includes the following components:

Years Ended December 31,

	2002	2001	2000
Benefits earned during the year	\$ 840	\$ 705	\$ 555
Interest cost	1,620	1,427	1,267
Expected return on plan assets	(953)	(947)	(920)
Net amortization and deferral	741	567	417
Amortization of regulatory asset	136	136	208
Gross PBOP cost	2,384	1,888	1,527
Capitalized costs	(520)	(475)	(512)
Net PBOP cost	\$ 1,864	\$ 1,413	\$ 1,015

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2002	2001	2002	2001
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 119,667	\$ 110,214	\$ 22,317	\$ 18,581
Service cost	3,205	2,986	840	705
Interest cost	8,501	8,261	1,620	1,428
Plan amendments	170	-	-	(1,205)
Actuarial loss	5,104	3,645	1,574	3,680
Benefits paid	(5,588)	(5,439)	(915)	(872)
Benefit obligation at December 31,	131,059	119,667	25,436	22,317
Change in plan assets:				
Fair value of plan assets at January 1,	113,330	123,715	12,216	11,896
Actual return on plan assets	(13,369)	(5,001)	(1,168)	(688)
Employer contributions	65	55	2,067	1,880
Benefits paid	(5,588)	(5,439)	(915)	(872)
Fair value of plan assets at December 31,	94,438	113,330	12,200	12,216
Funded status of plan:				
Funded status at December 31,	36,621	6,337	13,236	10,101
Unrecognized actuarial gain (loss)	(30,471)	(2,051)	(2,839)	854
Unrecognized prior service cost	(2,337)	(2,581)	647	704
Rate-regulated adjustment	-	(516)	-	-
Unrecognized net transition obligation	1,436	1,645	(8,034)	(8,838)
Accrued benefit costs	\$ 5,249	\$ 2,834	\$ 3,010	\$ 2,821
Weighted-average assumptions as of December 31,				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets*	9.00%	9.00%	6.00-9.00%	6.00-9.00%
Rate of compensation increase	4.0-5.0%	4.5-5.5%	4.0%	4.5%

* On January 1, 2003, the Company has changed the pension plans' expected return on plan assets to 8.5%.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Accounting for pensions and other postretirement benefits requires an

extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The discount rate is based on a market rate for a recognized-rating agency's high-quality long-term bond portfolio with durations matching the expected payouts under our retirement plans. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced. A 25 basis-point reduction in this assumption would have increased 2002 pension expense by \$250 and the pension liabilities by \$4,700. The present values of the Company's future pension and other postretirement obligations were determined using discount rates of 6.75% at December 31, 2002 and 7.25% at December 31, 2001. Pension expense under these plans is determined using the discount rate as of the beginning of the year, which was 7.25% for 2002, and will be 6.75% for 2003.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's pension expense increases as the expected return on assets decreases. A 25 basis-point reduction in this assumption would have increased 2002 pension expense by \$275. For 2002, PSC used a 9.0% expected return on assets assumption, and will lower this assumption to 8.5% in 2003. Over the last ten years, the Company's pension plan assets have generated an average annual investment return of 8.3%. Although those returns are below the long-term assumption, this measurement period includes the three-year period ended December 31, 2002 of declining performance of the equity markets. For the seven-year period ended December 31, 1999, prior to this adverse investment climate, the average annual investment return on PSC's pension plan assets was 14.8%. The expected return on assets is based on a targeted allocation of 65% equities and 35% fixed income. We believe that the Company's actual long-term asset allocation on average will approximate the targeted allocation.

During 2002, the fair market value of the pension plan assets declined due to negative equity market performance and our discount rate decreased resulting in an increase in pension liabilities. As a result, we recorded an additional minimum liability of \$4,731 on our consolidated balance sheet as of December 31, 2002. The additional minimum liability equaled the excess of the accumulated benefit obligation over the fair value of plan assets and resulted in the establishment of a regulatory asset, as the Company anticipates recovery of the future, increased pension expense through customer rates. Although the additional minimum liability did not impact net income or cash flow in 2002, in future years, the Company's pension expense and cash funding requirements are anticipated to increase as a result of the decline in plan assets and the discount rate.

The accumulated benefit obligation is in excess of plan assets for certain non-qualified plans. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans were \$104,433 \$84,756 and \$72,551, and \$3,551, \$2,342 and \$0, respectively as of December 31, 2002 and 2001.

The assumed medical inflation rates under the plans are 10.0%, reducing to 5.0% by 2006. The effect of a 1% increase in the assumed medical inflation rates would be to increase the accumulated postretirement benefit obligation as of December 31, 2002 and the 2002 PBOP costs by \$859 and \$95, respectively. The effect of a 1% decrease in the assumed medical inflation rates would be to decrease the accumulated postretirement benefit obligation as of December 31, 2002 and the 2002 PBOP costs by \$1,049 and \$127, respectively. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are invested in PSC common stock based on a percentage of an employee's contribution, subject to certain limitations. The Company's matching contribution, recorded as compensation expense, was \$859, \$798 and \$786 for the years ended December 31, 2002, 2001 and 2000, respectively.

Water Rates

On August 1, 2002, the Pennsylvania Public Utility Commission ("PAPUC") granted PSC's Pennsylvania utility subsidiary 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 at 5.0%. Consequently, the total base rates increased by \$30,626 and the DSIC was reset to zero.

On April 27, 2000, the PAPUC approved a rate settlement reached between PSC's Pennsylvania utility subsidiary, and the parties actively litigating the joint rate application. The settlement was designed to increase annual revenue by \$17,000 or 9.4% above the level in effect at the time of the filing. The rates in effect at the time of the filing included \$7,347 in Distribution System Improvement Charges ("DSIC") ranging from 0.33% to 5%. Consequently, the settlement resulted in a total base rate increase of \$24,347 above the rates in effect before the DSIC was applied. As a part of the rate settlement, the DSIC was reset to zero. The settlement agreement also provided for the recovery of up to \$5,295 (the merger costs allocable to our Pennsylvania operations) of the \$10,121 (\$8,596 after-tax) in merger costs that were expensed in the first quarter of 1999 in connection with the merger with Consumers Water Company. As a result, a regulatory asset was established to reflect the amount to be recovered as a result of the rate settlement. The merger transaction costs and related recovery have been reported in Other expenses and the restructuring costs and related recovery have been reported as Costs and expenses in the Consolidated Statements of Income and Comprehensive Income.

The Company's other operating subsidiaries were allowed annual rate increases of \$3,024 in 2002, \$4,799 in 2001 and \$698 in 2000, represented by thirteen, nine and four rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$1,403, \$4,200 and \$450 in 2002, 2001 and 2000, respectively.

The DSIC enables water utilities in Pennsylvania to add a surcharge to customer bills reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective or when PSW's pro forma earnings exceed a PUC benchmark. The maximum DSIC that can be in effect at any time is 5%. The DSIC provided revenues in 2002, 2001 and 2000 of \$5,301, \$6,672 and \$2,301, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

In 2001, the Illinois Commerce Commission issued regulations implementing an infrastructure surcharge known as a Qualifying Infrastructure Plant Surcharge ("QIPS") for use by Illinois water and wastewater utilities. QIPS is similar to DSIC, however, it is established annually and prospectively based on anticipated qualifying capital expenditures, and it includes a broader range of qualifying capital expenditures, including certain wastewater capital expenditures. Our operating subsidiary in Illinois received approval to add a QIPS to its bills in three of its operating divisions beginning January 1, 2002 at various rates ranging from 1.06% to 2.49% which generated \$217 of revenues in 2002. The QIPS remains in effect at rates ranging from 3.13% to 5.0% in 2003.

In addition to its base rates and DSIC, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated in base rates. A rate credit reduced operating revenues by \$286 in 2002, \$639 in 2001, and increased operating revenues by rate surcharges of \$74 in 2000.

Selected Quarterly Financial Data (Unaudited) Philadelphia Suburban Corporation and Subsidiaries
(in thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2002					
Operating revenues	\$71,669	\$76,615	\$91,918	\$81,826	\$322,028
Operations and maintenance expense	27,285	28,915	31,143	30,392	117,735
Net income available to common stock	11,875	14,818	21,815	18,646	67,154
Basic net income per common share	0.17	0.22	0.32	0.27	0.98
Diluted net income per common share	0.17	0.21	0.31	0.27	0.97
Dividend paid per common share	0.1325	0.1325	0.1325	0.140	0.5375
Dividend declared per common share	0.1325	0.1325	0.2725	-	0.5375
Price range of common stock					
- high	24.61	25.00	20.30	21.87	25.00
- low	21.10	18.49	16.02	19.30	16.02
2001					
Operating revenues	\$70,193	\$77,240	\$84,726	\$75,121	\$307,280
Operations and maintenance expense	26,186	26,462	28,994	30,243	111,885
Net income available to common stock	13,085	15,432	19,279	12,209	60,005
Basic net income per common share	0.19	0.23	0.28	0.18	0.88
Diluted net income per common share	0.19	0.22	0.28	0.18	0.87
Dividend paid per common share	0.124	0.124	0.124	0.13248	0.504
Dividend declared per common share	0.124	0.124	0.25648	-	0.504
Price range of common stock					
- high	19.39	20.40	23.28	24.64	24.64
- low	15.65	16.60	18.66	20.80	15.65

High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividends paid in December 2002 of \$0.14 and December 2001 of \$0.13248 were declared in August 2002 and August 2001, respectively.

Summary of Selected Financial Data Philadelphia Suburban Corporation and Subsidiaries
(in thousands of dollars, except per share amounts)

Years ended December 31,	2002	2001	2000	1999	1998
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PER COMMON SHARE:

Income from operations before non-recurring items: (a)					
Basic	\$0.93	\$0.88	\$0.78	\$0.70	\$0.65
Diluted	0.92	0.87	0.77	0.69	0.64
Net income					
Basic	0.98	0.88	0.82	0.57	0.71
Diluted	0.97	0.87	0.81	0.56	0.70
Cash dividends paid	0.54	0.50	0.47	0.45	0.43
Cash dividends declared (b)	0.54	0.50	0.47	0.45	0.32
Return on average stockholders' equity	13.9%	13.3%	13.2%	10.1%	13.7%
Book value at year end	\$7.25	\$6.90	\$6.38	\$5.69	\$5.46
Market value at year end	20.60	22.55	19.60	13.24	18.92

INCOME STATEMENT HIGHLIGHTS:

Operating revenues	\$322,028	\$307,280	\$274,014	\$256,546	\$250,718
Depreciation and amortization	44,322	40,168	34,100	31,903	29,464
Interest expense (c)	39,007	38,637	37,775	31,796	30,785
Income before income taxes	109,252	99,087	86,995	62,915	75,133
Provision for income taxes	42,046	38,976	34,105	26,531	30,118
Net income available to common stock	67,154	60,005	52,784	36,275	44,820

BALANCE SHEET HIGHLIGHTS:

Total assets	\$1,717,069	\$1,555,108	\$1,413,723	\$1,280,805	\$1,156,733
Property, plant and equipment, net	1,490,841	1,368,115	1,251,427	1,135,364	1,016,194
Stockholders' equity	493,097	472,717	430,587	367,141	349,868
Long-term debt (d)	617,175	531,455	472,712	425,946	377,355
Total debt	732,288	641,123	573,706	529,015	440,905

ADDITIONAL INFORMATION:

Net cash flows from operating activities	\$121,560	\$102,165	\$86,972	\$74,103	\$84,362
Capital additions (e)	136,164	124,088	129,740	96,383	87,973
Dividends on common stock	36,789	34,234	30,406	29,217	29,349
Number of customers served	626,786	602,510	579,219	557,462	533,847
Number of shareholders of common stock	21,389	20,920	20,978	21,187	20,553
Common shares outstanding (000)	67,916	68,386	67,095	64,082	63,597
Employees (full-time)	971	951	943	945	973

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- (a) Income per share from operations before non-recurring items is a measure that is not determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income per share as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure it for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business. Non-recurring items include the following: the 2002 amounts include a net gain of \$3,690 (\$5,676 pre-tax) or \$0.05 per share on the sale of a portion of our Ashtabula, Ohio water system; the 2000 amounts include a net gain of \$2,236 (\$4,041 pre-tax) or \$0.04 per share for the partial recovery of the merger costs related to the merger with Consumers Water Company; the 1999 amounts include a net charge of \$8,596 (\$10,121 pre-tax) or \$0.13 per share for the Merger transaction costs and related restructuring costs; and the 1998 amounts include a net gain of \$3,903 (\$6,680 pre-tax) or \$0.06 per share on the sale of Consumers Water Company's New Hampshire system pursuant to the State's condemnation statute.
- (b) The cash dividend of \$0.10, paid in March 1998, was declared in December 1997.
- (c) Includes dividends on preferred stock of subsidiary and minority interest; net of allowance for funds used during construction.
- (d) Includes current portion.
- (e) Excludes payments for acquired water systems of \$8,914 in 2002, \$9,517 in 2001, \$3,546 in 2000, \$39,164 in 1999, and \$24,498 in 1998.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Philadelphia Suburban Corporation at December 31, 2002:

Pennsylvania Suburban Water Company (Pa.)
Suburban Environmental Services, Inc. (Pa.)
Little Washington Wastewater Company (Pa.)
Consumers Water Company (Pa.)
Consumers Ohio Water Company (Ohio)
Consumers Applegrove Water Company (Ohio)
Consumers Illinois Water Company (Illinois)
Consumers New Jersey Water Company (New Jersey)
Consumers Maine Water Company (Maine)
Hydraulics, Ltd. (North Carolina)
Hawley Water Company (Pa)
Utility & Municipal Services, Inc. (Pa)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772 and 333-42275), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 333-61768, 333-70859, 033-52557, 33-27032, 2-81757, 333-81085) of Philadelphia Suburban Corporation of our report dated January 31, 2003 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 26, 2003

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 Annual Report on Form 10-K for the year ended December 31, 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
March 26, 2003

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 Annual Report on Form 10-K for the year ended December 31, 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
March 26, 2003