

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993

COMMISSION FILE NUMBER 1-6659

PHILADELPHIA SUBURBAN CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Pennsylvania

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

23-1702594

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

762 Lancaster Avenue, Bryn Mawr, Pennsylvania

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

19010

(ZIP CODE)

Registrant's telephone number, including area code: (215)-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

State the aggregate market value of the voting stock held by nonaffiliates of the registrant as of March 1, 1994. \$184,498,379

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by March 1, 1994, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 1, 1994. 11,404,928

Documents incorporated by reference

(1) Portions of registrant's 1993 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 19, 1994 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K Report.

PART I

ITEM 1. BUSINESS

Philadelphia Suburban Corporation ('PSC' or the 'Registrant'), a Pennsylvania corporation, was incorporated in 1968. The business of PSC is conducted almost entirely through its subsidiary Philadelphia Suburban Water Company ('PSW'), a regulated public utility. PSC also owns a small data processing service operation, Utility & Municipal Services, Inc. The information appearing in 'Management's Discussion and Analysis' from the portions of PSC's 1993 Annual Report to shareholders filed as Exhibit 13 to this Form 10-K Report is incorporated by reference herein.

In the third quarter of 1990, the Board of Directors authorized the sale of Mentor Information Systems, Inc., Digital Systems, Inc., American Tele/Response Group, Inc., Stoner Associates, Inc., and its subsidiary Kesler Engineering, Inc.; and during the first quarter of 1991, the Board of Directors authorized the sale of PSC Engineers & Consultants, Inc. During 1991, all the businesses were sold except for American Tele/Response Group, Inc. and Kesler Engineering, Inc., which were sold in the first quarter of 1993. The results of operations of these businesses are accounted for as discontinued operations. Unless otherwise indicated, as used herein the 'Company' includes the continuing operations of both PSC and its consolidated subsidiaries. The sales of the non-water service subsidiaries were authorized in order to allow the Company to concentrate its activities on its core water utility operations.

Consistent with that decision, in December 1993, PSW acquired the water utility assets and franchise rights of the Borough of Malvern for \$1,323,000 in cash. The acquisition of this water system added approximately 859 customers or .3% to PSW's customer base and one square mile of service territory or .3% to PSW's existing service territory. PSW has made a proposal to acquire a municipal water system serving approximately 13,000 customers in an area contiguous to PSW's service territory for a purchase price in excess of \$20,000,000, although there can be no assurance that the proposal will be accepted or that such a transaction will be consummated. PSW is not currently a party to any definitive agreement with respect to any pending acquisition. In December 1992, PSW acquired the water utility assets of the West Whiteland Township and the Uwchlan Township Municipal Authority water systems for \$9,128,257 in cash and the issuance of \$1,776,947 in debt. The December 1992 acquisitions added approximately 6,900 customers or 2.9% to PSW's customer base and 40 square miles of service territory or 11.8% to PSW's existing service territory.

PHILADELPHIA SUBURBAN WATER COMPANY

General. PSW is an operating public utility company, which supplies water to approximately 247,195 residential, commercial, industrial and public customers. PSW's contiguous service territory is approximately 380 square miles, comprising a large portion of the suburban area west and north of the City of Philadelphia. This territory is primarily residential in nature and is completely metered, except for fire hydrant service.

Based on the 1990 census, PSW estimates that the total number of persons currently served is approximately 800,000. Excluding the customers that were added as a result of the acquisitions in December 1993 and 1992, customer accounts have grown at an average rate of approximately .6% per annum for the last three years.

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Operating revenues during the twelve months ended December 31, 1993 were derived approximately as follows:

66.5%	from residential customers
20.1%	from commercial customers
4.6%	from industrial customers
1.0%	from public customers
5.9%	from fire protection services
	from sales to other water utilities and miscellaneous
1.9%	customers

100.0%	

- -----
 - -----

Selected operating statistics. Set forth below is a table showing certain selected operating statistics for PSW for the past three years.

Revenues from water sales (000's omitted)

	1993	1992	1991
Residential.....	\$ 66,183	\$ 58,738	\$ 57,191
Commercial.....	19,970	18,755	17,764
Industrial.....	4,568	4,387	4,065
Public.....	1,027	1,003	938
Fire protection.....	5,912	5,330	4,561
Other.....	1,095	1,057	1,255
Tax Surcharge.....	706	2,281	1,292
Total.....	\$ 99,461	\$ 91,551	\$ 87,066

Water sales (million gallons)

Residential.....	16,729	16,034	16,436
Commercial.....	7,441	7,146	7,224
Industrial.....	1,985	1,947	1,892
Public.....	294	277	291
Fire protection -- metered.....	60	56	53
Other.....	401	383	487
Total.....	26,910	25,843	26,383

System delivery by source (million gallons)

Surface (including Upper Merion reservoir).....	24,635	24,230	24,567
Wells.....	5,466	4,642	4,785
Purchased.....	2,446	2,392	2,466
Total.....	32,547	31,264	31,818

Number of metered customers (end of year)

Residential.....	232,684	230,740	223,635
Commercial.....	10,720	10,547	9,800
Industrial.....	832	837	820
Public.....	696	671	658
Fire protection.....	2,248	1,980	1,694
Other.....	15	13	9
Total.....	247,195	244,788	236,616
Average consumption per customer in gallons.....	110,368	108,258	110,978

Water supplies and usage. PSW derives its principal supply of water from the Schuylkill River, five rural streams which are tributaries of the Schuylkill and Delaware Rivers, and the Upper Merion Reservoir, a former quarry now impounding groundwater. All of these are either within or adjacent to PSW's service territory. PSW acquired the right to remove water from these sources, and in connection with such rights, PSW has secured the necessary regulatory approvals. PSW has constructed five impounding reservoirs and four treatment and pumping facilities to provide storage and purification of these surface water supplies.

The Pennsylvania Department of Environmental Resources ('DER') has regulatory power with respect to sources of supply and the construction, operation and safety practices for certain dams and other water containment structures under the Pennsylvania Dam Safety and Encroachments Act of 1979. PSW's dams are in compliance with these requirements in all material respects.

PSW's surface supplies are supplemented by 39 wells. PSW also has interconnections with: the Chester Water Authority, which permits PSW to withdraw up to 6.2 million gallons per day ('mgd'); the Bucks County Water and Sewer Authority, which provides for a supply of up to 7.0 mgd; and the West Chester Area Municipal Authority, which provides up to a maximum of 1.0 mgd. Agreements regarding the first two interconnections require PSW to purchase certain minimum amounts of water. PSW believes it possesses all the necessary permits to obtain its supply of water from the sources indicated above.

The minimum safe yield of all sources of supply described above, based on low stream flows of record with respect to surface supplies, is as follows:

Surface supplies.....	90.5 mgd
Upper Merion Reservoir.....	7.2
Wells.....	17.7
Purchased supplies.....	8.1

Total.....	123.5 mgd

During periods of normal precipitation, the safe yield is more than the minimum shown above. Under normal operating conditions, PSW can deliver a maximum of 139 mgd to its distribution system for short periods of time. The average daily send-out for 1993, 1992 and 1991 was 89.1, 85.4, and 87.2 mgd, respectively.

The maximum demand ever placed upon PSW's facilities for one month occurred during June 1988, when send-out averaged 101.4 mgd. The peak day of record occurred during July 1993 when water use reached 118.8 mgd.

Actual water usage (as measured by the water meters installed at each service location) is less than the amount of water delivered into the system due to leaks, PSW's operational use of water, fire hydrant usage and other similar uses. Water consumption per customer is affected by local weather conditions during the year. In general, during the late spring and summer, an increase in rainfall

reduces water consumption, while a decrease in rainfall increases it. Also, an increase in the average temperature generally causes an increase in water consumption.

Energy supplies. PSW does all of its pumping using electric power purchased from PECO Energy Company. Energy supplies have been sufficient to meet customer demand.

Water shortages. The Delaware River Basin, which is the drainage area of the Delaware River from New York State to Delaware, periodically experiences water shortages during the summer months. To the extent that the reservoirs in the upper part of the Basin are affected by a lack of precipitation, the

Delaware River Basin Commission (the 'DRBC') may impose either voluntary or mandatory water use restrictions on portions or all of the Basin.

PSW's raw water supplies have generally been adequate to meet customer demand for the past five years principally because of its five impounding reservoirs. However, since PSW's service territory is within the Basin, PSW's customers may be required to comply with DRBC water use restrictions, even if PSW's supplies are adequate, if the availability of water in the entire DRBC area is inadequate.

During 1988 and the two preceding years, the lower regions of the Basin experienced hot, dry weather conditions while the upper regions of the Basin enjoyed normal or above normal precipitation. During all three years PSW had sufficient quantities of raw water available and no drought restrictions were imposed by the DRBC. However, in the summer of 1988, with the record breaking heat and the resulting high water demand created by lawn sprinkling, PSW imposed restrictions banning nonessential water uses in order to maintain adequate storage levels of treated water and to reduce peak demands in the distribution system. No water use restrictions were imposed by PSW in the years subsequent to 1988. The addition of the 15 mgd Pickering Creek treatment plant in 1991 and improvements to the distribution system in the past five years have reduced the possibility of PSW issuing water use restrictions in the future due to demands on its system.

Regulation by the Pennsylvania Public Utility Commission. PSW is subject to regulation by the Pennsylvania Public Utility Commission (the 'PUC') which has jurisdiction with respect to rates, service, accounting procedures, issuance of securities and other matters.

Under applicable Pennsylvania statutes, PSW has rights granted under its Articles of Incorporation and by certificates of public convenience from the PUC authorizing it to conduct its present operations in the manner in which such operations are now conducted and in the territory in which it now renders service, to exercise the right of eminent domain and to maintain its mains in the streets and highways of such territory. Such rights are generally nonexclusive, although it has been the practice of the PUC to allow only one water company to actually provide service to a given area. Consequently, PSW is subject to competition only with respect to potential customers located on the fringe of areas that it presently serves who also may have access to the service of another water supplier.

In 1992, the PUC issued a policy statement which, under certain circumstances, required utilities to extend service to new customers without the benefit of a customer advance for construction. As a result of various problems and uncertainties associated with the implementation of this policy statement, the PUC initiated a rulemaking procedure in December 1993, intended to facilitate the development of practical standards by which the broad policy statement can be applied. The Company believes that when instituted, the new standards will reflect the position that the cost of service extensions should be justified by anticipated revenues from the extension or should be paid by the service applicant.

Water Quality & Environmental Issues. PSW is subject to regulation of water quality by the U.S. Environmental Protection Agency ('EPA') under the Federal Safe Drinking Water Act (the 'SDWA') and by the Pennsylvania Department of Environmental Resources ('DER') under the Pennsylvania Safe Drinking Water Act. The SDWA provides for the establishment of uniform

minimum national water quality standards, as well as governmental authority to specify the type of treatment process to be used for public drinking water. PSW is presently in compliance with all standards and treatment requirements promulgated to date.

The EPA has an ongoing directive to issue additional regulations under the SDWA. The directive was clarified in 1986 when Congress amended the SDWA to require, among other revisions, disinfection of all drinking water, additional maximum contaminant level ('MCL') specifications, and filtration of all surface water supplies. PSW has already installed the necessary equipment to provide for the disinfection of the drinking water throughout the system and is monitoring for the additional specified contaminants. PSW's principal surface water supplies are currently filtered. PSW began to provide full filtration of its supply from the Upper Merion Reservoir in November 1993 upon the completion of a

filtration facility at that location. This facility was necessary in order to maintain PSW's compliance with the SDWA.

In addition, the 1986 SDWA Amendments require the EPA to promulgate MCLs for many chemicals not previously regulated. EPA has to date promulgated MCLs for numerous additional contaminants and is required to mandate further MCLs every three years. Promulgation of additional MCLs by the EPA in the future may require PSW to change some of its treatment techniques, however, PSW meets all existing MCL requirements and believes that the currently proposed MCLs will not have a significant impact on its capital requirements or operating expenses. In 1991, the EPA proposed regulations pertaining to radionuclides (including radon). Recently, the Congress placed a one year moratorium on radon regulations. Depending upon the final MCLs permitted, PSW will likely be required to take remedial action at certain of its groundwater facilities. The remediation options presently under evaluation include dilution, treatment, or replacement of the supply with other groundwater or surface water supplies. Based on the MCL initially proposed, it is anticipated that the capital costs of compliance will range from \$2.5 to \$3.5 million over the next 10 years. PSW may, in the future, have to change its method of treating drinking water at certain of its sources of supply if additional regulations become effective.

In June, 1991, EPA promulgated final regulations for lead and copper (the 'Lead and Copper Rule'). Under the Lead and Copper Rule, large water utilities are required to conduct corrosion control studies and to sample certain high-risk customer homes to determine the extent of treatment techniques that may be required. PSW conducted the two required rounds of sampling in 1992 and did not exceed the EPA action levels for either lead or copper. Additional sampling will be required in the future. PSW has developed a corrosion control program for its surface sources of supply and does not foresee the need to make any major additional treatment changes or capital expenditures as a result of the Lead and Copper Rule.

On January 1, 1993, new federal regulations ('Phase II') became effective for certain volatile organics, herbicides, pesticides and inorganic parameters. Although PSW will not be required by the DER to monitor for most of these parameters until 1995, PSW has already done substantial monitoring. In the few cases where Phase II contaminants were detected, concentrations were below MCLs. Future monitoring will be required, but no major treatment modifications are anticipated as a result of these regulations.

PSW is also subject to other environmental statutes administered by the EPA and DER. These include the Federal Clean Water Act and the Resource Conservation and Recovery Act ('RCRA'). Under the Federal Clean Water Act, the Company must obtain National Pollutant Discharge Elimination System ('NPDES') permits for discharges from its treatment stations. PSW currently maintains three NPDES permits relating to its surface water treatment plants, which are subject to renewal every five years. During the past five years, PSW has installed the required waste water treatment facilities and presently meets all NPDES requirements. Although management recognizes that permit renewal may become more difficult if more stringent guidelines are imposed, no significant obstacles to permit renewal are presently foreseen.

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Under RCRA, PSW is subject to specific regulations regarding the solid waste generated from the water treatment process. The DER promulgated 'Final Rulemaking' for solid waste (Residual Waste Management) in July 1992. PSW has retained an engineering consultant to assist with the extensive monitoring, record keeping and reporting required under these regulations. A preliminary application for permitting has been filed, and formal permitting of these facilities should be completed by 1996 in accordance with regulatory requirements.

Where PSW is required to make certain capital investments in order to maintain its compliance with any of the various regulations discussed above, it is management's belief that all such expenditures would be fully recoverable in PSW's water rates. However, the capital costs, under current law, would have to be financed prior to their inclusion in PSW's rate structure, and the resulting rate increases would not necessarily be timely.

Utility & Municipal Services, Inc. ('UMS') provides data processing services to several water utilities including PSW, and to several municipal water and sewer systems. The services provided to the utilities and municipalities include billing services and the processing of financial reports.

EMPLOYEE RELATIONS

As of December 31, 1993, the Registrant employed a total of 523 persons, of which 511 are employees of PSW. Hourly employees of PSW are represented by the International Brotherhood of Firemen and Oilers, Local No. 473. The contract with the union expires on December 1, 1994. Management considers its employee relations to be satisfactory.

ITEM 2. PROPERTIES

The Registrant believes that the facilities used in the operation of its various businesses are generally in excellent condition in terms of suitability, adequacy and utilization.

The property of PSW consists of a waterworks system devoted to the collection, storage, treatment and distribution of water in its service territory. Management considers that its properties are maintained in good operating condition and in accordance with current standards of good waterworks practice. The following table summarizes the principal physical properties owned by PSW:

LOCATION	NO. OF BUILDINGS	DESCRIPTION	SQUARE FEET FLOOR AREA
Pennsylvania	5	Office & warehouse	151,185
Pennsylvania	14	Pumping stations and treatment buildings	155,116
Pennsylvania	22	Well stations	App. 600 ea.
Pennsylvania	17	Well stations	App. 150 ea.
Pennsylvania	36	Booster stations	App. 1,100 ea.

In addition, PSW also owns 45 standpipes with a combined distribution storage capacity of 137.9 million gallons and five surface water impounding reservoirs. The water utility also owns approximately 2,960 miles of transmission and distribution mains, has 247,195 active metered services and 10,991 fire hydrants.

PSW's properties referred to herein, with certain minor exceptions which do not materially interfere with their use, are owned and are subject to the lien of an Indenture of Mortgage dated as of January 1, 1941, as supplemented. In the case of properties acquired through the exercise of the power of eminent domain and certain properties acquired through purchase, it has title only for water supply purposes.

The Registrant's corporate offices and the facilities of UMS are leased from PSW and located in Bryn Mawr, Pennsylvania.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. In March of 1992, PSW received notice of an arbitration proceeding against the New Jersey Spill Fund by a party claiming damages of approximately \$2.5 million as a result of a fire at a warehouse in Newark, New Jersey, where hazardous substances had been stored. The Spill Fund had previously denied this claim, but the claimant demanded an arbitration proceeding to review the claim. If the claimant is successful in the arbitration proceeding, the Spill Fund could commence a civil action seeking to recover the amount of its payment to the claimant from a group of over 70 entities, including PSW, who have been identified as having some of their material stored at the warehouse. The Company does not believe that any assessment against the Company as a result of

the arbitration proceeding will be material to the business or financial condition of the Company. PSW has also been advised that on February 15, 1994 the State of New Jersey and the Spill Fund instituted a separate action against approximately 100 entities in the Superior Court of New Jersey Law Division -- Essex County seeking to recover, among other related expenses, the State's cost of \$3.82 million in cleaning up the site of the Newark warehouse. PSW is one of the defendants named in the Complaint, but PSW has not been served with a Complaint as of March 24, 1994. PSC does not believe that any assessment against PSW as a result of this action will be material to the business or financial condition of PSC.

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 1993.

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

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 1, 1994, there were approximately 10,968 holders of record of the Company's common stock.

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

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL YEAR
1993					
Earned revenues.....	\$ 22,726	\$ 25,048	\$ 27,948	\$ 25,522	\$ 101,244
Operating expenses.....	10,733	11,205	12,078	11,973	45,989
Net income.....	2,587	3,604	4,257	3,387	13,835
Net income per share.....	.26	.33	.38	.30	1.27
Dividend paid per share.....	.26	.27	.27	.27	1.07
Price range of common stock					
-- high.....	18.25	18.38	20.75	20.13	20.75
-- low.....	15.63	17.25	18.13	17.75	15.63
1992					
Earned revenues.....	\$ 22,925	\$ 23,236	\$ 24,175	\$ 22,971	\$ 93,307
Operating expenses.....	10,875	10,594	11,151	10,404	43,024
Income, continuing operations.....	2,102	2,628	3,071	2,825	10,626
Income per share, continuing operations.....	.26	.32	.35	.30	1.23
Loss, discontinued operations.....	--	--	(5,500)	--	(5,500)
Loss per share, discontinued operations.....	--	--	(.63)	--	(.63)
Extraordinary charge.....	--	--	(784)	(50)	(834)
Extraordinary charge per share.....	--	--	(.09)	(.01)	(.10)
Net income (loss).....	2,102	2,628	(3,213)	2,775	4,292
Net income (loss) per share.....	.26	.32	(.37)	.29	.50
Dividend paid per share.....	.26	.26	.26	.26	1.04
Price range of common stock					
-- high.....	16.00	14.88	16.38	16.63	16.63
-- low.....	14.38	13.75	14.25	15.63	13.75

Following is a recent history of income from continuing operations and dividends of the Company:

	CASH DIVIDEND PER SHARE	INCOME PER SHARE FROM CONTINUING OPERATIONS	PAYOUT RATIO
1989.....	\$.94	\$ 1.25	75%
1990.....	1.00	1.27	79
1991.....	1.00	1.29	78

1992.....	1.04	1.23	85
1993.....	1.07	1.27	84

Dividends have averaged approximately 80% of income from continuing operations during this period. In March 1993, the annual dividend increased by 4% to \$1.08 beginning with the June 1993 dividend.

ITEM 6. SELECTED FINANCIAL DATA

The information appearing in the section captioned 'Summary of Selected Financial Data' from the portions of the Company's 1993 Annual Report to shareholders filed as Exhibit 13 to this Form 10-K Report is incorporated by reference herein.

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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 the Company's 1993 Annual Report to shareholders filed as Exhibit 13 to this Form 10-K Report is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information appearing under the captions 'Consolidated Statements of Income', 'Consolidated Balance Sheets', 'Consolidated Cash Flow Statements' and 'Notes to Consolidated Financial Statements' from the portions of the Company's 1993 Annual Report to shareholders filed as Exhibit 13 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 the Company's 1993 Annual Report to shareholders filed as Exhibit 13 to this Form 10-K Report is incorporated by reference herein.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS OF THE REGISTRANT

The information appearing in the section captioned 'Information Regarding Nominees and Directors' of the Proxy Statement relating to the May 19, 1994, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

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	48	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993) (2)
John W. Boyer, Jr.	65	Chairman (July 1992 to May 1993); Chairman and President (July 1981 to May 1983 and October 1983 to July 1992); Chairman and Chief Executive Officer (May 1983 to October 1983) (3)
Robert A. Luksa	59	President, Philadelphia Suburban Water Company (October 1986 to present) (4)
Roy H. Stahl	41	Senior Vice President and General Counsel (April 1991 to present) (5)
Michael P. Graham	45	Senior Vice President -- Finance and Treasurer (March 1993 to present) (6)

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- (1) In addition to the capacities indicated, the individuals named in the above table hold other offices or directorships with subsidiaries of the Registrant. Officers serve at the discretion of the Board of Directors.
 - (2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.
 - (3) Mr. Boyer has served as Vice Chairman of PSW from July 1992 to May 1993, and from June 1976 to July 1992 he was Chairman of this subsidiary. He also served as the utility's Chief Executive Officer from June 1976 to May 1983 and from January 1986 to July 1992.
 - (4) Mr. Luksa was Executive Vice President of PSW from April 1982 to October 1986 and from 1971 to April 1982 he was Vice President and Chief Engineer of this subsidiary.
 - (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. Graham was Controller of the Company from 1984 to September 1990, and from September 1990 to May 1991 he was Chief Financial Officer and Treasurer. From May 1991 to March 1993, Mr. Graham was Vice President -- Finance and Treasurer.

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ITEM 11. MANAGEMENT REMUNERATION

The information appearing in the sections captioned 'Compensation of Directors and Executive Officers' of the Proxy Statement relating to the May 19, 1994, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing in the sections captioned 'Ownership of Common Stock' of the Proxy Statement relating to the May 19, 1994, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing in the sections captioned 'Other Remuneration and Certain Transactions' of the Proxy Statement relating to the May 19, 1994, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

Management's Report

Independent Auditors' Report

Consolidated Balance Sheets -- December 31, 1993 and 1992

Consolidated Statements of Income -- 1993, 1992 and 1991

Consolidated Statements of Cash Flow -- 1993, 1992, and 1991

Notes to Consolidated Financial Statements

Financial Statement Schedules. The following is a list of financial statement schedules, or supplemental schedules, filed as part of this annual report on Form 10-K. All other schedules 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.

Auditors' Report on Additional Financial Data

Schedule III -- Condensed Financial Information of Registrant

Schedule V -- Property, Plant and Equipment

Schedule VI -- Accumulated Depreciation of Property, Plant and Equipment

Schedule IX -- Short-Term Borrowings

Schedule X -- Supplementary Income Statement Information

Reports on Form 8-K. The Company filed no report on Form 8-K during the quarter ended December 31, 1993.

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 parenthesis. The page numbers listed refer to page number where such exhibits are located using the sequential numbering system specified by Rules 0-3 and 403.

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EXHIBIT INDEX

EXHIBIT NO.		PAGE NO.
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	
3.2	By-Laws, as amended (1) (Exhibit 3.2)	
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities (now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)	
4.2	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank (East) National Association dated as of February 16, 1990 (3) (Exhibit 4.3)	
4.3	First Amendment to Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank N.A. dated as of September 1, 1992 (1) (Exhibit 4.3)	
4.4	Preferred Stock Agreement between Philadelphia Suburban Water Company and Provident Life and Accident Insurance Company dated as of January 1, 1991 (3) (Exhibit 4.4)	
4.5	Indenture dated as of July 1, 1988 between Philadelphia Suburban Corporation and the Philadelphia National Bank, as Trustee. (4) (Exhibit 4)	
4.6	Form of Rights Agreement, dated as of February 19, 1988, between Philadelphia Suburban Corporation and Mellon Bank (East) National Association, as amended by Amendment No. 1. (5) (Exhibit 1)	
4.7	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)	
4.8	Twenty-first Supplemental Indenture dated as of August 1, 1985 (6) (Exhibit 4.2)	
4.9	Twenty-second Supplemental Indenture dated as of April 1, 1986 (7) (Exhibit 4.3)	
4.10	Twenty-third Supplemental Indenture dated as of April 1, 1987 (8) (Exhibit 4.4)	
4.11	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (9) (Exhibit 4.5)	
4.12	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (10) (Exhibit 4.6)	
4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993	22
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank, National Association, First Fidelity Bank, N.A. and Meridian Bank, N.A. dated as of March 17, 1994	44
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	
10.3	Executive Incentive Award Plan, as amended March 21, 1989 and February 6, 1990* (10) (Exhibit 10.3)	
10.4	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (10) (Exhibit 10.4)	
10.5	Supplemental Executive Retirement Plan, effective December 1, 1989* (10) (Exhibit 10.5)	
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10.6	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)	
10.7	1993 Incentive Compensation Plan* (1) (Exhibit 10.7)	
10.8	Employment letter agreement with Mr. Nicholas DeBenedictis* (1) (Exhibit 10.8)	
10.9	1994 Incentive Compensation Program*	94
10.10	1994 Equity Compensation Plan*	99
13.	Selected portions of Annual Report to shareholders for the year ended December 31, 1993	109

	incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993	
22.	Subsidiaries of Philadelphia Suburban Corporation	143
24.	Consent of Independent Auditors	144
25.	Power of Attorney (set forth as a part of this report)	15
28.	Undertakings with respect to Form S-8 registrations	144

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NOTES
DOCUMENTS INCORPORATED BY REFERENCE

- * Indicates management contract or compensatory plan or arrangement.
- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992
 - (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
 - (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1990.
 - (4) Filed as Exhibit 4 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on June 14, 1988.
 - (5) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1988, with respect to the New York Stock Exchange, and on November 9, 1988, with respect to the Philadelphia Stock Exchange.
 - (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.
 - (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.
 - (8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.
 - (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
 - (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
 - (11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.

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SIGNATURES

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

PHILADELPHIA SUBURBAN CORPORATION
By _____NICHOLAS DEBENEDICTIS_____
Nicholas DeBenedictis
President and
Chairman

Date: March 29, 1994

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, Michael P. Graham, Senior Vice President -- Finance and Treasurer 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.

John H. Austin, Jr. Director	CLAUDIO ELIA Claudio Elia Director
JOHN W. BOYER, JR. John W. Boyer, Jr. Director	MICHAEL P. GRAHAM Michael P. Graham Senior Vice President -- Finance and Treasurer (principal financial and accounting officer)
MARY C. CARROLL Mary C. Carroll Director	JOSEPH C. LADD Joseph C. Ladd Director
NICHOLAS DEBENEDICTIS Nicholas DeBenedictis President and Director	JOHN F. MCCAUGHAN John F. McCaughan

Chairman (principal executive officer) and Director

G. FRED DIBONA, JR.
G. Fred DiBona, Jr.
Director

HARVEY J. WILSON
Harvey J. Wilson
Director

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AUDITORS' REPORT ON ADDITIONAL FINANCIAL DATA

The Board of Directors
Philadelphia Suburban Corporation

Under date of February 1, 1994, we reported on the consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1993 and 1992 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1993, as contained in the 1993 Annual Report to shareholders. These consolidated financial statements and our report thereon are incorporated by reference in the annual report on Form 10-K for the year 1993. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related additional financial data listed in Item 14. -- Financial Statement Schedules of this report on Form 10-K. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such additional financial data, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

KPMG PEAT MARWICK

Philadelphia, Pennsylvania
February 1, 1994

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SCHEDULE III

PHILADELPHIA SUBURBAN CORPORATION (PARENT COMPANY)
CONDENSED BALANCE SHEETS
(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 1993 AND 1992

	1993	1992
	-----	-----
Current assets.....	\$ 251	\$ 583
Advances to subsidiaries.....	3,109	2,881
Furniture and fixtures, at cost.....	--	153
Less accumulated depreciation.....	--	(139)
Net furniture and fixtures.....	--	14
Investments in subsidiaries, at equity		
Continuing operations*.....	135,662	102,779
Discontinued operations.....	--	1,256
	-----	-----
	135,662	104,035
Deferred charges and other assets.....	360	907
	-----	-----
	\$ 139,382	\$ 108,420
	-----	-----
Current liabilities:		
Net reserves related to discontinued operations.....	\$ 2,578	\$ --
Other.....	870	1,449
	-----	-----
Total current liabilities.....	3,448	1,449
Common stockholders' equity.....	135,934	106,971
	-----	-----
	\$ 139,382	\$ 108,420
	-----	-----

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* The Company's investment in Philadelphia Suburban Water Company amounted to \$133,967 and \$101,086 at December 31, 1993 and 1992, respectively, which includes \$51,000 and \$47,000, respectively, of retained earnings, free of dividend restrictions imposed by PSW's debt agreements.

See accompanying notes to the consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION (PARENT COMPANY)
CONDENSED STATEMENTS OF INCOME
(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 1993 AND 1992

	1993	1992	1991
Earned revenues.....	\$ --	\$ --	\$ --
Costs and expenses:			
Operating expenses.....	1,122	1,088	1,959
Depreciation and amortization.....	25	69	77
Interest, net.....	(575)	1,305	1,485
	572	2,462	3,521
Loss before provision for income taxes, income from subsidiaries, and extraordinary charge.....	(572)	(2,462)	(3,521)
Provision for income taxes.....	(224)	(761)	(1,209)
Loss before income from subsidiaries, and extraordinary charge.....	(348)	(1,701)	(2,312)
Income (loss) from subsidiaries:			
Continuing operations.....	14,183	12,327	12,491
Discontinued operations*.....	--	(5,500)	(5,290)
	14,183	6,827	7,201
Income before extraordinary charge.....	13,835	5,126	4,889
Extraordinary charge from early retirement of debt, net of income tax benefits..	--	(834)	--
Net income.....	\$ 13,835	\$ 4,292	\$ 4,889

* Parent expenses of \$510, \$329 and \$1,887 in 1993, 1992 and 1991, respectively, have been charged to the reserves related to discontinued operations.

See accompanying notes to the consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION (PARENT COMPANY)
CONDENSED CASH FLOW STATEMENTS
(IN THOUSANDS OF DOLLARS)
YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

	1993	1992	1991
Cash flows from operating activities:			
Income before extraordinary charge.....	\$ 13,835	\$ 5,126	\$ 4,889
Adjustment to reconcile income before extraordinary charge to net cash flows from operating activities:			
Depreciation and amortization.....	25	69	77
Deferred income taxes.....	543	(78)	(130)
Net decrease (increase) in receivables, inventory and prepayments.....	108	133	(117)
Net increase (decrease) in payables and other accrued liabilities.....	(228)	911	70
Net decrease in accrued interest.....	--	(1,266)	(83)
Other.....	--	3	(53)
Income from subsidiaries, net of parent expenses associated with discontinued operations.....	(14,183)	(6,827)	(7,201)
Net cash flows from operating activities.....	100	(1,929)	(2,548)
Cash flows from investing activities:			
Purchase of property, plant and equipment.....	--	(3)	--
Net cash flows from the sales and operations of the discontinued operations....	494	440	9,971
Other.....	10	--	10
Net cash flows from investing activities.....	504	437	9,981
Cash flows from financing activities:			
Repayments of long-term debt including premium on early retirement.....	--	(26,067)	(9,995)
Proceeds from issuing common stock.....	27,749	25,950	3,459

Repurchase of common stock.....	(992)	(26)	--
Dividends paid.....	(11,629)	(8,866)	(7,859)
Dividends received from subsidiary.....	10,300	9,600	9,400
Capital contributed to subsidiary.....	(29,000)	--	--
Net change in intercompany advances.....	2,777	(1,491)	(1,277)
Other.....	--	--	(62)
Net cash flows from financing activities.....	(795)	(900)	(6,334)
Net increase (decrease) in cash.....	(191)	(2,392)	1,099
Cash balance beginning of year.....	376	2,768	1,669
Cash balance end of year.....	\$ 185	\$ 376	\$ 2,768

See accompanying notes to the consolidated financial statements.

SCHEDULE V

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
PROPERTY, PLANT AND EQUIPMENT
YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991
(IN THOUSANDS OF DOLLARS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS AT COST	RETIREMENTS SALE AND OTHER	RECLASSIFICATIONS	BALANCE AT END OF YEAR
1993					
Utility plant and equipment.....	\$ 390,138	1,323*	3,150**	34,126	\$ 428,737
Construction in progress.....	9,343	27,090	--	(34,126)	2,307
Other equipment.....	2,395	8	(145)	--	2,258
	\$ 401,876	28,421	3,005	--	\$ 433,302
1992					
Utility plant and equipment.....	\$ 366,290	10,905*	(2,130)	15,073	\$ 390,138
Construction in progress.....	2,192	22,224	--	(15,073)	9,343
Other equipment.....	2,376	31	(12)	--	2,395
	\$ 370,858	33,160	(2,142)	--	\$ 401,876
1991					
Utility plant and equipment.....	\$ 322,930	--	(1,300)	44,660	\$ 366,290
Construction in progress.....	24,814	22,038	--	(44,660)	2,192
Other equipment.....	2,560	92	(276)	--	2,376
	\$ 350,304	22,130	(1,576)	--	\$ 370,858

- * Represents net assets of water systems acquired during the year.
** Includes \$2,633 related to the final allocation of 1992 water system acquisitions, and \$919 related to the implementation of Statement of Financial Accounting Standards No. 109, 'Accounting for Income Taxes'.

See accompanying notes to the consolidated financial statements.

SCHEDULE VI

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991
(IN THOUSANDS OF DOLLARS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS	RETIREMENTS SALE AND OTHER	BALANCE AT END OF YEAR
--	------------------------------------	-----------	----------------------------------	---------------------------

1993

Utility plant and equipment.....	\$ 54,455	9,476	(1,014)	\$ 64,945
Other equipment.....	1,811	451	135	2,127
	\$ 56,266	9,927	(879)	\$ 67,072

1992

Utility plant and equipment.....	\$ 48,333	8,374	2,252	\$ 54,455
Other equipment.....	1,551	272	12	1,811
	\$ 49,884	8,646	2,264	\$ 56,266

1991

Utility plant and equipment.....	\$ 42,242	7,318	1,227	\$ 48,333
Other equipment.....	1,360	294	103	1,551
	\$ 43,602	7,612	1,330	\$ 49,884

See accompanying notes to the consolidated financial statements.

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SCHEDULE IX

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
SHORT-TERM BORROWINGS
YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991
(IN THOUSANDS OF DOLLARS)

	BALANCE AT END OF YEAR	WEIGHTED AVERAGE INTEREST RATE AT YEAR END	MAXIMUM AMOUNT OUTSTANDING AT END OF ANY MONTH	AVERAGE AMOUNT OUTSTANDING DURING THE YEAR	WEIGHTED AVERAGE INTEREST RATE DURING THE YEAR
1993					
Payable to bank (1).....	\$ 819	4.10%	\$ 819	\$ 393	4.35% (2)
1992					
Payable to bank (1).....	\$ 959	3.99%	\$ 2,190	\$ 686	4.90% (2)
1991					
Payable to bank (1).....	\$ 160	5.34%	\$ 1,110	\$ 590	7.84% (2)

(1) Short-term line of credit with interest at prime or rates based on the federal funds.

(2) Computed based on the varying interest rates in effect at the time the funds were borrowed.

See accompanying notes to the consolidated financial statements.

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SCHEDULE X

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INCOME STATEMENT INFORMATION
YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991
(IN THOUSANDS OF DOLLARS)

	1993	1992	1991
Maintenance and Repairs.....	\$ 7,586	\$ 7,262	\$ 7,297

Taxes, other than payroll and income taxes.....	\$ 5,475	\$ 5,220	\$ 4,830
	-----	-----	-----
	-----	-----	-----

See accompanying notes to the consolidated financial statements.

TWENTY-EIGHTH SUPPLEMENTAL
INDENTURE
DATED AS OF APRIL 1, 1993
TO
INDENTURE OF MORTGAGE
DATED AS OF JANUARY 1, 1941

PHILADELPHIA SUBURBAN WATER COMPANY
TO
CORESTATES BANK, N.A., AS TRUSTEE

\$22,000,000 FIRST MORTGAGE BONDS, 7.15% SERIES DUE 2008

TWENTY-EIGHTH SUPPLEMENTAL INDENTURE dated as of the first day of April, 1993, by and between PHILADELPHIA SUBURBAN WATER COMPANY, a corporation duly organized and existing under the laws of the commonwealth of Pennsylvania (the 'Company'), party of the first part, and CORESTATES BANK, N.A., a national banking association successor to The Pennsylvania Company for Insurances on Lives and Granting Annuities, and as The Pennsylvania Company for Banking and Trusts, and as The First Pennsylvania Banking and Trust Company, and as First Pennsylvania Bank N.A. (the 'Trustee') party of the second part.

WHEREAS, the Company heretofore duly executed and delivered to The Pennsylvania company for Insurances on Lives and Granting Annuities, as Trustee, an Indenture of Mortgage dated as of January 1, 1941 (the 'Original Indenture'), which by reference is hereby made a part hereof, and in and by the Original Indenture the Company conveyed and mortgaged to the Trustee certain property therein described, to secure the payment of its bonds to be generally known as its 'First Mortgage Bonds' and to be issued under the Original Indenture in one or more series as therein provided; and

WHEREAS, on March 29, 1947, concurrently with a merger of Germantown Trust Company into The Pennsylvania Company for Insurances on Lives and Granting Annuities, the name of the surviving corporation was changed to The Pennsylvania Company for Banking and Trusts, on September 30, 1955, concurrently with a merger of The First National Bank of Philadelphia into The Pennsylvania Company for Banking and Trusts, the name of the surviving corporation was changed to The First Pennsylvania Banking and Trust Company, and on June 3, 1974, by amendment to its Articles of Association, The First Pennsylvania Banking and Trust Company was changed and converted into a national bank and concurrently therewith changed its name to First Pennsylvania Bank N.A., and on October 1, 1990, First Pennsylvania Bank N.A. merged with and into Philadelphia National Bank, which changed its name to Corestates Bank, N.A., such mergers and changes of name not involving any change in the title, powers, rights or duties of the Trustee, as trustee under the Original Indenture as supplemented at the respective dates thereof; and

WHEREAS, the company duly executed and delivered to the Trustee a First Supplemental Indenture dated as of July 1, 1948, a Second Supplemental Indenture dated as of July 1, 1952, a Third Supplemental Indenture dated as of November 1, 1953, a Fourth Supplemental Indenture dated as of January 1, 1956, a Fifth Supplemental Indenture dated as of March 1, 1957, a Sixth Supplemental Indenture dated as of May 1, 1958, a Seventh Supplemental Indenture dated as of September 1, 1959, an Eighth Supplemental Indenture dated as of May 1, 1961, a Ninth Supplemental Indenture dated as of April 1, 1962, a Tenth Supplemental Indenture dated as of March 1, 1964, an Eleventh Supplemental Indenture dated as of November 1, 1966, a Twelfth Supplemental Indenture dated as of January 1, 1968, a Thirteenth Supplemental Indenture dated as of June 15, 1970, a Fourteenth Supplemental Indenture dated as of November 1, 1970, a Fifteenth Supplemental Indenture dated as of December 1, 1972, a Sixteenth Supplemental Indenture dated as of May 15, 1975, a Seventeenth Supplemental Indenture dated as of December 15, 1976, an Eighteenth Supplemental Indenture dated as of May 1, 1977, a Nineteenth Supplemental Indenture dated as of June 1, 1980, a Twentieth

Supplemental Indenture dated as of August 1, 1983, a Twenty-First Supplemental Indenture, dated as of August 1, 1985, a Twenty-Second Supplemental Indenture, dated as of April 1, 1986, a Twenty-Third Supplemental Indenture, dated as of April 1, 1987, a Twenty-Fourth Supplemental Indenture, dated as of June 1, 1988, a Twenty-Fifth Supplemental Indenture, dated as of January 1, 1990, a Twenty-Sixth Supplemental Indenture, dated as of November 1, 1991 and a Twenty-Seventh Supplemental Indenture, dated as of June 1, 1992, to subject certain additional property to the lien of the Original Indenture and to provide for the creation of additional series of bonds; and

WHEREAS, the Company has issued under the Original Indenture, as supplemented at the respective dates of issue, thirty-three series of First Mortgage Bonds designated, respectively, as set forth in the following table, the Indenture creating each series and the principal amount of bonds thereof issued being indicated opposite the designation of such series:

1

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
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

and

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

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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:

COUNTY

INDENTURE	DATE OF RECORDING	BUCKS		CHESTER		DELAWARE		MONTGOMERY
		BOOK	PAGE	BOOK	PAGE	BOOK	PAGE	BOOK
Original	2/20/41	496	1	H-13. Vol. 307	20	1034	1	1625
First Supplemental	8/26/48	632	1	F-16. Vol. 380	200	1668	169	2031
Second Supplemental	7/1/52	768	438	18. Vol. 425	186	1962	376	2360
Third Supplemental	11/25/53	895	1	18. Vol. 442	325	2052	1	2493
Fourth Supplemental	1/9/56	1089	155	Z-20. Vol. 499	1	2199	1	2722
Fifth Supplemental	3/20/57	1181	316	B-22. Vol. 536	601	2294	50	2850
Sixth Supplemental	5/9/58	1254	1	G-23	201	2380	039	2952
Seventh Supplemental	9/25/59	1332	509	B-25	109	2442	1	3090

Eighth Supplemental	5/9/61	--	--	Z-26	17	2526	312	--
Eighth Supplemental	5/10/61	1409	225	--	--	--	--	3249
Ninth Supplemental	4/10/62	1458	372	G-28	126	2581	463	3307
Tenth Supplemental	3/19/64	1568	1	M-30	967	2976	1043	3310
Eleventh Supplemental	11/4/66	1655	695	Q-32	6682	762	223	3549
Twelfth Supplemental	1/23/68	1691	531	N-33	219	2792	708	3542
Thirteenth Supplemental	7/2/70	1763	1167	D-35	80	2850	301	3687
Fourteenth Supplemental	11/5/70	1774	331	K-35	713	2858	3113	700
Fifteenth Supplemental	12/11/72	1869	196	O-37	998	2926	550	3786
Sixteenth Supplemental	5/28/75	1979	14	E-44	77	3005	511	4010
Seventeenth Supplemental	12/18/77	2072	683	L-51	1	3072	43	5002
Eighteenth Supplemental	4/29/77	2082	567	B-52	344	3078	728	5003
Nineteenth Supplemental	6/23/80	2303	714	J-62	92	3261	293	5030
Twentieth Supplemental	8/2/83	2487	370	D-72	1	96	810	5662
Twenty-First Supplemental	8/27/85	2690	806	54	550	--	--	5864
Twenty-First Supplemental	8/28/85	--	--	--	--	264	159	--
Twenty-Second Supplemental	4/22/86	2774	160	263	275	326	592	5944
Twenty-Third Supplemental	4/1/87	2960	693	--	--	--	--	--
Twenty-Third Supplemental	4/2/87	--	--	680	337	447	1807	6115
Twenty-Fourth Supplemental	7/25/88	3199	1095	1224	389	0593	0585	6324
Twenty-Fifth Supplemental	1/12/90	0136	0250	1848	205	731	1571	6538
Twenty-Sixth Supplemental	11/8/91	369	2190	2660	205	894	2241	6780
Twenty-Seventh Supplemental	6/29/92	0487	1829	3055	182	0969	2023	6918

INDENTURE	PAGE
Original	1
First Supplemental	257
Second Supplemental	517
Third Supplemental	1
Fourth Supplemental	425
Fifth Supplemental	335
Sixth Supplemental	289
Seventh Supplemental	249
Eighth Supplemental	--
Eighth Supplemental	289
Ninth Supplemental	169
Tenth Supplemental	237
Eleventh Supplemental	129
Twelfth Supplemental	315
Thirteenth Supplemental	23
Fourteenth Supplemental	548
Fifteenth Supplemental	96
Sixteenth Supplemental	307
Seventeenth Supplemental	436
Eighteenth Supplemental	291
Nineteenth Supplemental	502
Twentieth Supplemental	1045
Twenty-First Supplemental	1347
Twenty-First Supplemental	--
Twenty-Second Supplemental	360
Twenty-Third Supplemental	--
Twenty-Third Supplemental	602
Twenty-Fourth Supplemental	143
Twenty-Fifth Supplemental	376
Twenty-Sixth Supplemental	891
Twenty-Seventh Supplemental	302

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 a new series of bonds to be designated 'First Mortgage Bonds, 7.15% Series due 2008' (the '7.15% Series

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due 2008' or the 'Bonds') to be limited in aggregate principal amount to \$22,000,000, to be issued only as registered bonds without coupons, to be dated as provided in the Original Indenture, to bear interest at the rate of 7.15% per annum, and to mature on April 1, 2008; and

WHEREAS, the Company proposes to issue \$22,000,000 principal amount of the Bonds 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, Article XVIII of the Original Indenture provides that the Company, when authorized by resolution of its Board of Directors, may with the Trustee enter into an indenture supplemental to the Original Indenture, which thereafter shall form a part of the Original Indenture, for the purposes, inter alia, of subjecting to the lien of the original Indenture additional property, of defining the covenants and provisions applicable to any bonds of any series

other than the 3 1/4% Series due 1971, of adding to the covenants and agreements of the Company contained in the Original Indenture other covenants and agreements thereafter to be observed by the Company, of surrendering any right or power in the Original Indenture reserved to or conferred upon the Company, and of making such provisions in regard to matters or questions arising under the Original Indenture as may be necessary or desirable and not inconsistent therewith; and

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

WHEREAS, the Company, by proper corporate action, has duly authorized the creation of said new series of Bonds (to be issued in accordance with the terms and provisions of the Original Indenture and indentures supplemental thereto, including this Twenty-Eighth Supplemental Indenture, and to be secured by said Original Indenture and indentures supplemental thereto, including this Twenty-Eighth Supplemental Indenture); and has further duly authorized the execution, delivery and recording of this Twenty-Eighth 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 forms following - 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 Twenty-Eighth Supplemental Indenture to conform to any pertinent law or usage:

NO. R-

\$ _____

PHILADELPHIA SUBURBAN WATER COMPANY
(INCORPORATED UNDER THE LAWS OF THE COMMONWEALTH OF PENNSYLVANIA)

Mortgage Bond, 7.15% Series Due 2008

Private Placement Number 71803 G@0

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 _____ or its registered assigns, on the first day of April, 2008, at the corporate trust office of CoreStates Bank, N.A. in the City of Philadelphia, Pennsylvania, the sum of _____ 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

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pay interest thereon at said office to the registered owner hereof from the interest payment date next preceding the date of this bond (or if this bond be dated prior to October 1, 1993, from the date hereof) until the principal hereof shall become due and payable, at the rate of seven and 15/100ths percent (7.15%) per annum, payable semiannually in like coin or currency on the first day of April and the first day of October in each year 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 9.15% per annum after maturity whether by acceleration or otherwise until paid.

The interest so payable will (except as otherwise provided in the Twenty-Eighth Supplemental Indenture referred to herein) be calculated on the basis of a 360-day year of twelve 30-day months and be paid to the person in whose name this bond (or a bond or bonds in exchange for which this bond was issued) is registered at the close of business on the fifteenth day of the calendar month next preceding the month in which the interest payment date occurs or, if such day is not a business day, on the next preceding business day (a 'record date') and principal, premium, if any, and interest on this Bond shall be paid in accordance with written payment instructions of the registered owner delivered to the Trustee 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') dated as of January 1, 1941, executed by the Company to The Pennsylvania Company for Insurances on Lives and Granting Annuities (now CoreStates Bank, N.A.), as Trustee (hereinafter called the 'Trustee'), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security, the rights of the holders and registered owners of the bonds and of the Trustee in respect of such security, and the terms and conditions under which the bonds are and are to be secured and may be issued under the Indenture; but neither the foregoing reference to the Indenture nor any provision of this bond or of the Indenture or of any indenture supplemental thereto shall affect or impair the obligation of the Company, which is absolute and unconditional, to pay at the stated or accelerated maturity herein and in the Indenture provided, the principal of and interest and premium, if any, 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 'Twenty-Eighth Supplemental Indenture' dated as of April 1, 1993, and designated therein as 'First Mortgage Bonds, 7.15% Series due 2008 (the 'bonds of the 7.15% series due 2008').

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

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first mortgage lien thereon, or which shall affect the rights of the holders or registered owners of less than all of the bonds of any series affected thereby.

The bonds of the 7.15% series due 2008 are subject to redemption prior to maturity in part on April 1 of each year, commencing April 1, 1998, pursuant to the terms of a sinking fund provided in the Twenty-Eighth Supplemental Indenture at a price equal to one hundred percent (100%) of the principal amount of the bonds to be redeemed, together with unpaid interest accrued to the date fixed for redemption.

The bonds of the 7.15% series due 2008 are subject to redemption at the option of the Company, either as a whole or in part, on any date in coin or currency of the United States of America as at the time, of payment is legal tender for payment of public and private debts at a redemption price equal to the principal amount of bonds of the 7.15% series due 2008 to be redeemed plus interest thereon to the date of redemption plus a premium, as provided in the Twenty-Eighth Supplemental Indenture.

The bonds of the 7.15% series due 2008 are subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection

with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. In such a mandatory redemption the bonds of the 7.15% series due 2008 are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

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

If this bond or any portion hereof is called for redemption and payment thereof is duly provided for as specified in the Indenture, as supplemented, 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, as supplemented, upon the happening of an event of default, as in the Indenture, as supplemented, provided; subject, however, to the right, under certain circumstances, of the registered owners of a majority in principal amount of bonds of the 7.15% series due 2008 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 principal corporate trust office of the Trustee in the City of Philadelphia, Pennsylvania, upon surrender hereof for cancellation at such office and upon presentation of a written instrument of transfer duly executed, and thereupon the Company shall issue in the name of the transferee or transferees, and the Trustee shall authenticate and deliver, a new bond or bonds in authorized denominations, of equal aggregate unpaid principal amount. Any such transfer or exchange shall be subject to the terms and conditions and to the payment of the charges specified in the Indenture.

The Company and the Trustee may deem and treat the registered owner of this bond as the absolute owner hereof for the purpose of receiving payment of or on account of the principal hereof and the interest hereon, and for all other purposes, and shall not be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or interest on this bond or for any claim based hereon or otherwise in respect hereof or of the Indenture or of any indenture supplemental thereto against any incorporator or any past, present or future stockholder, officer or director of the

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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, as supplemented.

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 CoreStates Bank, N.A., as Trustee under the Indenture, or a successor trustee thereunder shall have signed the certificate of authentication endorsed hereon.

IN WITNESS WHEREOF, Philadelphia Suburban Water Company has caused this bond to be signed by its President or a Vice President and its corporate seal to be hereto affixed and attested by its Secretary or an Assistant Secretary, and this bond to be dated, 1993.

Attest:

PHILADELPHIA SUBURBAN WATER COMPANY

Trustee's Certificate of Authentication

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

CORESTATES BANK, N.A., TRUSTEE

By:

Dated: , 1993

Authorized Signer

and;

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

NOW, THEREFORE, THIS TWENTY-EIGHTH 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 Twenty-Eighth Supplemental Indenture, receipt whereof is hereby acknowledged, and of other good and valuable consideration, has granted, bargained, sold, aliened, enfeoffed, released and confirmed and by these presents does grant, bargain, sell, alien, enfeoff, release and confirm unto CoreStates Bank, N.A., 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

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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 A hereto, dated and recorded as therein set forth, and any other real estate and water rights acquired since the date of the Twenty-Seventh Supplemental Indenture.

II.

BUILDINGS AND EQUIPMENT.

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

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

It is hereby declared by the Company that all property of the kinds described in the 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 first priority lien of the Original Indenture, subject to Permitted Liens.

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, choices 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 I of Article XI of the Original Indenture, the Trustee or any receiver appointed hereunder shall enter upon and take possession of the mortgaged property, the Trustee or any such receiver may, to the extent permitted by law, at the same time likewise take possession of any and all of the property described in this paragraph then on hand and any and all other property of the Company then on hand, not described or referred to in the foregoing granting clauses, which is used or useful in connection with the business of the Company as a water company or as a water utility, and use and administer the same to the same extent as if such property were part of the

mortgaged property, unless and until such completed default shall be remedied or waived and possession of the mortgaged property restored to the Company, its successors or assigns.

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

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

IN TRUST NEVERTHELESS, for the equal pro rata benefit and security of each and every person or corporation who may be or become the holders of bonds and coupons secured by the Original Indenture or by any indenture supplemental thereto, or both, without preference, priority or distinction as to lien or otherwise of any bond or coupon over or from any other bond or coupon, so that each and every of said bonds and coupons issued or to be issued, of whatsoever series, shall have the same right, lien and privilege under the Original Indenture and all indentures supplemental thereto

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and shall be equally secured hereby and thereby, with the same effect as if said bonds and coupons had all been made, issued and negotiated simultaneously on the date thereof; subject, however, to the provisions with reference to extended, transferred or pledged coupons and claims for interest contained in the Original Indenture and subject to any sinking or improvement fund or maintenance deposit provisions, or both, for the benefit of any particular series of bonds.

IT IS HEREBY COVENANTED, DECLARED AND AGREED, by and between the parties hereto, that all such bonds and coupons are to be authenticated, delivered and issued, and that all property subject or to become subject hereto is to be held subject to the further covenants, conditions, uses and trusts hereinafter set forth, and the Company, for itself and its successors and assigns, does hereby covenant and agree to and with the Trustee and its successor or successors in said trust, for the benefit of those who shall hold said bonds and coupons, or any of them, issued under this Indenture or any indenture supplemental hereto, or both, as follows:

ARTICLE I.

FORM, AUTHENTICATION AND DELIVERY OF THE BONDS; REDEMPTION PROVISIONS

SECTION 1. There shall be a thirty-fourth series of bonds, limited in aggregate principal amount to \$22,000,000, designated as 'Philadelphia Suburban Water Company First Mortgage Bonds, 7.15% Series due 2008' (the 'Bonds').

Interest on the Bonds shall be payable semiannually on April 1 and October 1 of each year (each an 'interest payment date'), commencing October 1, 1993. Each Bond shall be dated the date of its authentication and shall bear interest from the interest payment date next preceding its date, unless authenticated on an interest payment date, in which case it shall bear interest from such interest payment date, or, unless authenticated prior to the first interest payment date for the Bonds, in which case it shall bear interest from the date of original authentication and delivery 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 authentication and delivery of the Bonds. The Bonds shall be stated to mature (subject to the right of earlier redemption at the prices and dates and upon the terms and conditions hereinafter set forth) and shall bear interest at

the rates set forth below:

PRINCIPAL AMOUNT	DATE OF MATURITY	INTEREST RATE
\$22,000,000	April 1, 2008	7.15%

Principal of any Bond, premium, if any, thereon and, to the extent legally enforceable, any installment of interest not paid when due shall bear interest at a rate equal to the rate borne by such Bond plus two percent (2%).

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

The principal of, and premium, if any, and interest on the Bonds shall be payable at the corporate trust office of the Trustee in the City of Philadelphia, Pennsylvania, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts; provided, however, that each payment of principal, interest and premium, if any, to the holders of the Bonds shall be paid by the Trustee, with funds received from the Company, by bank wire transfer of immediately available funds pursuant to instructions respectively incorporated in those certain Purchase Agreements dated as of April 1, 1993, between such person and the Company, as such instructions may be modified from time to time as provided in said Purchase Agreements.

Notwithstanding any provisions of the Indenture to the contrary, no holder of the Bonds shall be required to present or surrender such Bonds to the Company, the Trustee or any other person prior to, or as a condition of, receiving payment of any kind in respect thereof. All holders of the Bonds shall

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deliver to the Trustee all Bonds registered in their names at the time of final payment in full of all amounts due in respect thereof within a reasonable time period after receipt of such final payment.

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 payment date shall be entitled to receive the principal, premium, interest or other payment payable on such payment date, notwithstanding the cancellation of such Bond upon any transfer or exchange subsequent to the record date and prior to such payment date; provided, however, that if and to the extent the Company shall default in the payment of the interest due on an interest payment date, such defaulted interest shall be paid to the persons in whose names outstanding Bonds are registered at the close of business on a subsequent record date established by notice given by mail by or on behalf of the Company to the holders of Bonds not less than fifteen (15) days preceding such subsequent record date, such record date to be not less than ten (10) days preceding the date of payment of such defaulted interest. The term 'record date' as used in this Section I with respect to any regular interest payment date shall mean the fifteenth day of the calendar month next preceding the calendar month in which such interest payment date occurs if such fifteenth day is a business day; if such fifteenth day is not a business day, the record date shall be the next preceding business day.

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

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

SECTION 2. The Company shall establish a Sinking Fund for the benefit and security of the Bonds and shall pay to the Trustee on or before the first day of April (the 'Mandatory Redemption Date') in each year commencing April 1, 1998 to and including April 1, 2007 a sum in cash sufficient to redeem on such Mandatory Redemption Date \$2,000,000 principal amount of bonds of said series, which shall be applied on such Mandatory Redemption Date to the redemption of bonds of said series at one hundred percent (100%) of the principal amount thereof, together

interest accrued thereon to the date fixed for redemption.

For the purposes of this Section 2, any redemption of less than all of the Bonds pursuant to Section 3 hereof shall be applied to the scheduled principal payments of such series in inverse chronological order.

SECTION 3. The Bonds shall be redeemable at the option of the company, either as a whole or in part at any time at one hundred percent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, plus a premium equal to the 'Make-Whole Premium' determined five (5) business days prior to the date fixed for redemption; provided, that the Company shall furnish notice to the Trustee and to each holder of the Bonds by telecopy or other same day communication, on a date at least two (2) business days prior to the date fixed for redemption of the Make-Whole Premium, if any, applicable to such redemption and the calculations, in reasonable detail, used to determine the amount thereof.

As used herein, the following terms have the meanings set forth:

'Make-Whole Premium' shall mean, in connection with any redemption of the Bonds, the excess, if any, of (i) the aggregate present value as of the date of such redemption of each dollar of principal of the Bonds being redeemed (taking into account the application of such redemption required by Section 2 of this Twenty-Eighth Supplemental Indenture) and the amount of interest (exclusive of interest accrued to the date of redemption) that would have been payable in respect of such dollar amount if such redemption had not been made, determined by discounting such amounts at the Reinvestment Rate from the respective dates on which they would have been payable, over (ii) 100% of the principal amount of the outstanding Bonds being redeemed. If the Reinvestment Rate is equal to or higher than the interest rate of the Bonds being redeemed, the Make-Whole Premium shall be zero.

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'Reinvestment Rate' shall mean the sum of (i) 0.5% plus (ii) the arithmetic mean of the yields under the respective headings 'This Week' and 'Last Week' published in the Statistical Release under the caption 'Treasury Constant Maturities' for the maturity (rounded to the nearest month) corresponding to the Weighted Average Life to Maturity of the principal being redeemed (taking into account the application of such redemption required by Section 2 of this Twenty-Eighth Supplemental Indenture). If no maturity exactly corresponds to such Weighted Average Life to Maturity, yields for the two published maturities most closely corresponding to such Weighted Average Life to Maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For the purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the premium hereunder shall be used.

'Statistical Release' shall mean the statistical release designated 'H.15(519)' or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded U.S. Government Securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination hereunder, then such other reasonably comparable index which shall be designated by the holders of 66 2/3% in aggregate principal amount of the outstanding Bonds being redeemed.

'Weighted Average Life to Maturity' of the principal amount of Bonds being redeemed shall mean, as of the time of any determination thereof, the number of years obtained by dividing the then Remaining Dollar-Years of the principal of the Bonds being redeemed by the aggregate amount of such principal. The term 'Remaining Dollar-Years' of any such principal being redeemed shall mean the amount obtained by (i) multiplying (1) the amount by which each required repayment (including repayment at maturity) shall be reduced as a result of the redemption of such principal being redeemed (which redemption shall be applied as required by Section 2 of this Twenty-Eighth Supplemental Indenture) by (2) the number of years (calculated to the nearest one-twelfth) which will elapse between the date of determination and the date of that required repayment and (ii) totalling the products obtained in (i).

The Bonds shall not be prepayable or redeemable at the option of the Company prior to the stated maturity thereof other than on the terms and conditions and in the amounts and with the premium, if any, as provided in Sections 3 and 5 of this Article I.

SECTION 4. The Bonds shall be subject to mandatory redemption (i) in connection with the sale to or other acquisition by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies of all or substantially all of the property of the Company, or (ii) in connection with any voluntary or involuntary liquidation, dissolution or winding up of the Company, occurring in connection with or subsequent to the acquisition of all or substantially all of the stock of the Company ordinarily entitled to voting rights by or on behalf of one or more governments or municipal corporations or other governmental subdivisions, bodies, authorities or agencies. The Bonds are redeemable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts, at one hundred per cent (100%) of the principal amount thereof, together with interest accrued thereon to the date fixed for redemption.

SECTION 5. Any redemption of the Bonds shall be effected in accordance with the provisions of Article V of the Original Indenture, provided, however, that any partial prepayments or redemption of the Bonds shall be applied or effected ratably in accordance with the unpaid principal amounts thereof.

SECTION 6. The Bonds in the aggregate principal amount of \$22,000,000 may be issued under the provisions of Article IV of the Original Indenture and may forthwith be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered to or upon the order of the Company, upon receipt by the Trustee of the resolutions, certificates, opinions or other instruments or all of the foregoing required to be delivered upon the issue of bonds pursuant to the provisions of the Original Indenture.

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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 4.55% Series due 1994 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 5 1/2% Series due 1996 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 7 7/8% Series due 1997, cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 10 1/8% Series due 1995 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 9.20% Series due 2001 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 8.40% Series due 2002 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 12.45% Series due 2003 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 13% Series due 2005 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 10.65% Series due 2006 cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 8.44% Series due 1997 cease to be outstanding or on or before the March 1 next occurring after the bonds of the 9.89% Series due 2008, or on or before the March 1 next occurring after the bonds of the 9.93% Series due 2013, 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 shall cease to be outstanding, or on or before the March 1 next occurring after the bonds of the 6.50% Series due 2010 shall cease to be outstanding, whichever is latest, and on or before March 1 in each year thereafter if and so long as any of the Bonds are outstanding, an amount in cash (the 'Maintenance or Improvement Deposit') equal to 9% of the Gross operating Revenues of the Company during the preceding calendar year less, to the extent that the Company desires to take such credits, the following:

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

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

(C) the unapplied balance, or any part thereof, of the Cost or Fair Value, whichever is less, of Available Permanent Additions acquired by the Company during the five calendar years preceding such calendar year and

specified in the Officers' Certificates delivered to the Trustee pursuant to Section 2 of this Article, but only to the extent that the Permanent Additions with respect to which such Cost or Fair Value was determined shall at the time of taking such credit constitute Available Permanent Additions.

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

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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, with such modifications, additions and omissions as may be appropriate in the light of the purpose for which they are used.

(C) An amount in cash equal to the sum set forth in subparagraph (viii) of the Officers' Certificate provided for in paragraph (A) hereof.

SECTION 3. All cash deposited with the Trustee as part of any Maintenance or Improvement Deposit provided for in Section 1 of this Article, may, at the option of the Company, be applied to the purchase of bonds under the provisions of Section 2 of Article X of the Original Indenture or to the redemption of bonds under the provisions of Section 3 of Article X of the Original Indenture or may be withdrawn by the Company at any time to reimburse the Company for the cost of a Net Amount of Available Permanent Additions (excluding, however, from any such Available Permanent Additions all Permanent Additions included in any certificate delivered to the Trustee for the purpose of obtaining a credit against any Maintenance or Improvement Deposit provided for in Section 1 of this Article to the extent that such Permanent Additions have been used for any such credit). The Trustee shall pay to or upon the written order of the Company all or any part of such cash upon the receipt by the Trustee of:

(a) A Resolution requesting such payment; and

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(b) The documents specified in paragraphs 2, 5, 6 and 7 of subdivision (B) of Section 3 of Article IV of the Original Indenture, with such modifications, additions and omissions as may be appropriate in the light of the purposes for which they are used.

ARTICLE III. COVENANTS OF THE COMPANY.

SECTION 1. The Company hereby covenants and agrees with the Trustee, for the benefit of the Trustee and all the present and future holders of the Bonds, that the Company will pay the principal of and premium, if any, 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 Twenty-Eighth 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, 1992, and (ii) \$20,000,000; (b) Stock Payments made more than 40 days after the commencement, and prior to the expiration, of any Restricted Period shall not exceed 65% of the Company's Net Income during such Restricted Period; and (c) the Company will not authorize a Stock Payment if there has occurred and is continuing an event of default under subsections (a) and (b) of Section 1 of Article XI of the Original Indenture.

For the purposes of this Section 2 the following terms shall have the following meanings:

'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.

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

'Restricted Period' shall mean a period commencing on any Determination Date on which the total Debt of the Company is, or as the result of any Stock Payment then declared or set aside and to be made thereafter will be, more than 70% of Capitalization, and continuing until the third consecutive Determination

Date on which the total Debt of the Company does not exceed 70% of Capitalization.

'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.

'Determination Date' shall mean the last day of each calendar quarter. Any calculation with respect to any Determination Date shall be based on the Company's balance sheet as of such date.

'Debt' means (i) all indebtedness, whether or not represented by bonds, debentures, notes or other securities, for the repayment of money borrowed, (ii) all deferred indebtedness for the payment of the purchase price of property or assets purchased (but Debt shall not be deemed to include Customer Advances for Construction or any bonds issued under the Indenture which are not Outstanding Bonds), (iii) leases which have been or, in accordance with generally accepted accounting principles, should be recorded as capital leases and (iv) guarantees of the obligations of another of the nature described in clauses (i), (ii) or (iii) which have been or, in accordance with generally accepted accounting principles, should be recorded as debt.

'Outstanding Bonds' shall mean bonds which are outstanding within the meaning indicated in Section 20 of Article I of the Original Indenture except that, in addition to the bonds referred to in

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clauses (a), (b) and (c) of said Section 20, said term shall not include bonds for the retirement of which sufficient funds have been deposited with the Trustee with irrevocable instructions to apply such funds to the retirement of such bonds at a specified time, which may be either the maturity thereof or a specified redemption date, whether or not notice of redemption shall have been given.

'Capitalization' shall mean the sum of (i) the aggregate principal amount of all Debt at the time outstanding, (ii) the aggregate par or stated value of all capital stock of the Company of all classes at the time outstanding, (iii) premium on capital stock, (iv) capital surplus, and (v) retained earnings.

SECTION 3. The Company covenants and agrees that so long as any of the Bonds are outstanding neither the Company nor any subsidiary of the Company will, directly or indirectly, lend or in any manner extend its credit to, or indemnify, or make any donation or capital contribution to, or purchase any security of, any corporation which directly or indirectly controls the Company, or any subsidiary or affiliate (other than an affiliate which is a subsidiary of the Company) of any such corporation.

ARTICLE IV.
THE TRUSTEE.

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 Twenty-Eighth Supplemental Indenture, and in this Twenty-Eighth Supplemental Indenture set forth, and upon the terms and conditions set forth in Article V hereof.

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 and Twenty-Seventh Supplemental Indentures are hereby confirmed. All references in this Twenty-Eighth Supplemental Indenture to the Original Indenture shall be deemed to refer to the original Indenture as heretofore amended and supplemented, and all terms used herein shall be taken to have the same meaning as in the Original Indenture, as so amended, except in the cases where the context clearly indicates otherwise.

SECTION 2. All recitals in this Twenty-Eighth 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 3. Although this Twenty-Eighth Supplemental Indenture is dated for convenience and for the purpose of reference as of April 1, 1993, the actual date or dates of execution hereof by the Company and the Trustee are as indicated by their respective acknowledgments annexed hereto.

SECTION 4. In order to facilitate the recording or filing of this Twenty-Eighth 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 Presidents or vice-Presidents, under and by the authority vested in them, have hereto affixed their signatures, and their Secretaries or Assistant Secretaries have duly attested the execution hereof, this 22nd day of April, 1993.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER COMPANY

Attest: Suzanne M. Falcone
Assistant Secretary

By: Michael P. Graham
Senior Vice President-Finance
and Treasurer

[CORPORATE SEAL]

CORESTATES BANK, N.A.

Attest:
Authorized Officer

By:
Authorized Signer

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COMMONWEALTH OF PENNSYLVANIA

)

SS.:

COUNTY OF MONTGOMERY

)

On the 22nd day of April, 1993, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President-Finance and Treasurer of Philadelphia Suburban Water Company, a corporation, and that he as such Senior Vice President-Finance and Treasurer, being authorized to do so, executed the foregoing Twenty-Eighth 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 himself as such officer.

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

[NOTARIAL SEAL]

Nancy C. Lavin

COMMONWEALTH OF PENNSYLVANIA

)

ss.:

COUNTY OF PHILADELPHIA

)

On the _____ day of April, 1993, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared, _____ who acknowledged himself or herself to be a _____ of CoreStates Bank, N.A., Trustee, a corporation, and that he or she as such, being authorized to do so, executed the foregoing Twenty-Eighth Supplemental Indenture as and for the act and deed of the said corporation and for the uses and purposes therein mentioned by signing the name of the corporation by himself as such officer.

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

I am not a director or officer of said CoreStates Bank, N.A.

[NOTARIAL SEAL]

IN WITNESS WHEREOF the parties hereto have caused their corporate seals to be hereunto affixed and their Presidents or Vice-Presidents, under and by the authority vested in them, have hereto affixed their signatures, and their Secretaries or Assistant Secretaries have duly attested the execution hereof, this 22nd day of April, 1993.

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN WATER COMPANY

Attest:

Secretary

By:

Senior Vice President-Finance and Treasurer

[CORPORATE SEAL]

CORESTATES BANK, N.A.

Attest: Cathy Wiedecke

Authorized Officer

By: Richard Hojnowski

Vice President

COMMONWEALTH OF PENNSYLVANIA

)

SS.:

COUNTY OF

)

On the _____ day of April, 1993, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President-Finance and Treasurer of Philadelphia Suburban Water Company, a corporation, and that he as such Senior Vice President-Finance and Treasurer, being authorized to do so, executed the foregoing Twenty-Eighth 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 himself as such officer.

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

[NOTARIAL SEAL]

COMMONWEALTH OF PENNSYLVANIA

)

ss.:

COUNTY OF PHILADELPHIA

)

On the 22nd day of April, 1993, before me, the Subscriber, a Notary Public for the Commonwealth of Pennsylvania, personally appeared, Richard Hojnowski who acknowledged himself or herself to be a Vice President of CoreStates Bank, N.A., Trustee, a corporation, and that he or she as such Vice President, being authorized to do so, executed the foregoing Twenty-Eighth Supplemental Indenture as and for the act and deed of the said corporation and for the uses and purposes therein mentioned by signing the name of the corporation by himself as such officer.

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

I am not a director or officer of said CoreStates Bank, N.A.

[NOTARIAL SEAL]

Lynne N. Collins

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SCHEDULE A
BONDS REDEEMED OR PAID AT MATURITY

SERIES	PRINCIPAL AMOUNT PAID OR REDEEMED (IF LESS THAN ALL BONDS OF SERIES)	DATE PAID	MATURITY
3 1/4% Series Due 1971		12/31/70	Redemption
9 5/8% Series Due 1975		6/15/75	Maturity
9.15% Series Due 1977		11/01/77	Maturity
3% Series Due 1978		7/01/78	Maturity
3 3/8% Series Due 1982		7/01/82	Maturity
3.90% Series Due 1983		7/01/83	Maturity
3 1/2% Series Due 1986		1/01/86	Maturity
4 1/2% Series Due 1987		1/01/87	Maturity
4 1/8% Series Due 1988		5/01/88	Maturity
5% Series Due 1989		9/01/89	Maturity
4 5/8% Series Due 1991		5/01/91	Maturity
4.70% Series Due 1992		4/01/92	Maturity
6 7/8% Series Due 1993		1/01/93	Maturity
8 7/8% Series Due 2010		6/30/92	Redemption
10 1/8% Series Due 1995	\$ 5,600,000	--	Sinking Fund Redemption
9.20% Series Due 2001	\$ 3,850,000	--	Sinking Fund Redemption
8.40% Series Due 2002	\$ 4,500,000	--	Sinking Fund Redemption

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EXHIBIT A

COUNTY AND GRANTOR	COMPANY'S REAL ESTATE INDEX NO.	DATE OF DEED	BOOK	PAGE
Chester County/ Uwchlan Township Municipal Authority (Wells 1 & 2, Bell Tavern Well)	VI-E-26	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Wells 3 & 4, Shoen Road Well)	VI-E-27	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Well 5, Robert Dean Well)	VI-E-28	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Well 7, Milford Well)	VI-E-29	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Tank 1, Whitford Hills Tank)	VI-B-41	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Tank 2, Lionville Tank)	VI-B-42	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Tank 3, Marchwood Tank)	VI-B-43	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Tank 4, Valley Hill Tank)	VI-B-44	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Unused Tank Site, Waterview)	VI-B-45	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Office Building)	VIII-H-4	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Quarry)	VII-D-2	December 30, 1992	3431	181-198
Chester County/Uwchlan Township Municipal Authority (Tank 5, Blackhorse Tank)	VI-B-46	December 30, 1992	3431	181-198

Chester County/Whiteland Township (Well Site, Hillside Well)	VI-E-30	December 30, 1992	3433	397-404
Chester County/West Whiteland Township (Tank Site, Ship Road Tank)	VI-B-47	December 30, 1992	3433	397-404

\$30,000,000 REVOLVING CREDIT FACILITY
REVOLVING CREDIT AGREEMENT
BY AND AMONG
PHILADELPHIA SUBURBAN WATER COMPANY
AND
THE BANKS PARTY HERETO
AND MELLON BANK, N.A., AS AGENT

DATED AS OF MARCH 17, 1994

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REVOLVING CREDIT AGREEMENT

THIS REVOLVING CREDIT AGREEMENT (this 'Agreement') dated as of March 17, 1994, by and among PHILADELPHIA SUBURBAN WATER COMPANY, a Pennsylvania corporation ('Borrower'), the Banks (as hereinafter defined) and MELLON BANK, N.A., in its capacity as agent for the Banks hereunder (hereinafter referred to in such capacity as the 'Agent').

BACKGROUND

The Agent, the Banks and the Borrower desire to set forth the terms and conditions under which the Banks will make available to the Borrower certain credit facilities to be used for the purposes specified in this Agreement. Accordingly, the Agent, the Banks and the Borrower, each intending to be legally bound hereby, agree as follows:

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

Section 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural and to the masculine and feminine forms of the terms defined):

'Agent' shall mean Mellon Bank, N.A. and its successors.

'Agreement' means this agreement, together with all exhibits, amendments, modifications, schedules and supplements hereto as may be in effect from time to time.

'As-Offered Rate' and 'As-Offered Rate Alternative' are defined in Section 4.02(e) hereof.

'As-Offered Rate Interest Period' is defined in Section 4.03 hereof.

'As-Offered Rate Portion' of any Revolving Credit Loan shall mean at any time the portion, including the whole, of such Revolving Credit Loan bearing interest at such time under the As-Offered Rate Alternative. If no Revolving Credit Loan is specified, 'As-Offered Rate Portion' shall refer to the As-Offered Rate Portion of all Revolving Credit Loans outstanding at such time.

'As-Offered Utilization Fee' shall have the meaning set forth in Section 2.02(b) hereof.

'Assessment Rate' is defined in Section 4.02(c) hereof.

'Banks' shall mean the financial institutions named on Schedule 1.01(a) hereto and their respective successors and assigns as permitted hereunder, each of which is referred to herein as a 'Bank'.

'Bank Indebtedness' means any liability, direct or indirect, liquidated or contingent, to any bank or other financial institution, for or on account of money borrowed, guaranties of money borrowed and letters of credit, having a final maturity less than five (5) years from the date of creation of such liability.

'Borrowing Date' shall mean, with respect to any Revolving Credit Loan, the date for the making thereof or the renewal or conversion thereof to the same or a different Rate Alternative, which shall be a Business Day.

'Business Day' means a day other than a Saturday, Sunday or other day on which banks are authorized or required to close under the laws of the Commonwealth of Pennsylvania.

'CD Rate' and 'CD Rate Alternative' are defined in Section 4.02(c) hereof.

'CD Rate Interest Period' is defined in Section 4.03 hereof.

'CD Rate Portion' of any Revolving Credit Loan shall mean at any time the portion, including the whole, of such Revolving Credit Loan bearing interest at such time under the CD Rate Alternative.

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If no Revolving Credit Loan is specified, 'CD Rate Portion' shall refer to the CD Rate Portion of all Revolving Credit Loans outstanding at such time.

'Closing Date' shall mean the date of the first Revolving Credit Loan hereunder.

'Code' means the Internal Revenue Code of 1986, as amended from time to time, together with the rules and regulations promulgated in connection therewith.

'Commitment' means as to any Bank the aggregate of its Revolving Credit Commitment, and Commitments shall mean the aggregate of the Revolving Credit Commitments of all the Banks.

'Commitment Fee' is defined in Section 2.02 hereof.

'Consolidated' refers to the consolidation of the accounts of Borrower and Subsidiaries in accordance with GAAP, including principles of consolidation, applied in a manner consistent with the application of such principles in the preparation of the audited financial statements mentioned in Section 5.05 hereof.

'Controlled Group Member' means each trade or business (whether or not incorporated) which together with the Borrower is treated as a single employer under Section 4001(b)(1) of ERISA or Sections 414(b), (c), (m) or (o) of the Code.

'Corresponding Source of Funds' means:

(i) in the case of the Federal Funds Rate Portion, the proceeds of hypothetical borrowings by the applicable Bank of overnight Federal funds in an aggregate amount approximately equal to the Federal Funds Rate Portion;

(ii) in the case of any Funding Segment of the CD Rate Portion, the proceeds of hypothetical issuances by the applicable Bank of one or more of its certificates of deposit at the beginning of the CD Rate Interest Period corresponding to such Funding Segment, having maturities approximately equal to such CD Rate Interest Period and in an aggregate amount approximately equal to such Funding Segment; and

(iii) in the case of any Funding Segment of the Euro-Rate Portion, the proceeds of hypothetical receipts by the applicable Bank of one or more Dollar deposits in the interbank eurodollar market at the beginning of the Euro-Rate Interest Period corresponding to such Funding Segment, having maturities approximately equal to such Euro-Rate Interest Period and in an aggregate amount approximately equal to such Funding Segment.

'Credit Obligation' means any obligation for the payment of borrowed money or the installment purchase price of property, and includes any obligation under a lease which has been or, in accordance with GAAP, should be recorded as a capital lease.

'Dollar', 'Dollars' and the symbol '\$' mean lawful money of the United States of America.

'Environmental Laws' means the Federal Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. section 9601, et seq., the Federal Resource Conservation and Recovery Act, 42 U.S.C. section 6901 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. section 1801, et seq., the Pennsylvania Hazardous Sites Cleanup Act, (35 P.S. 6020.101 et seq.), all other federal, state and local environmental or health laws applicable to the Borrower or its business, operations or assets now or hereafter enacted, and all rules, regulations, orders and publications adopted or promulgated pursuant thereto from time to time.

'ERISA' means the Employee Retirement Income Security Act of 1974, as amended, together with all rules and regulations promulgated in connection therewith.

'Euro-Rate' and 'Euro-Rate Alternative' are defined in Section 4.02(d) hereof.

'Euro-Rate Interest Period' is defined in Section 4.03 hereof.

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'Euro-Rate Portion' of any Revolving Credit Loan shall mean at any time the portion, including the whole, of such Revolving Credit Loan bearing interest at such time under the Euro-Rate Alternative. If no Revolving Credit Loan is specified, 'Euro-Rate Portion' shall refer to the Euro-Rate Portion of all Revolving Credit Loans outstanding at such time.

'Event of Default' is defined in Article VII hereof.

'Federal Funds Alternative' is defined in Section 4.02(b) hereof.

'Federal Funds Effective Rate' is defined in Section 4.02(b) hereof.

'Federal Funds Rate Portion' of any Revolving Credit Loan shall mean at any time the portion, including the whole, of such Revolving Credit Loan bearing interest at such time under the Federal Funds Rate Alternative. If no Revolving Credit Loan is specified, 'Federal Funds Rate Portion' shall refer to the Federal Funds Rate Portion of all Revolving Credit Loans outstanding at such time.

'Funding Segment' of the CD Rate Portion, the Euro-Rate Portion, or the As-Offered Rate Portion, as the case may be, at any time shall mean the entire principal amount of such Portion to which at such time there is applicable a particular Interest Period beginning on a particular day and ending on another particular day. (By definition, each such Portion is at all times composed of an integral number of discrete Funding Segments and the sum of the principal amounts of all Funding Segments of any such Portion at any time equals the principal amount of such Portion at such time.)

'GAAP' means generally accepted accounting principles as applied to the public utility industry, as such principles shall be in effect at the time of the computation or determination or as of the date of the relevant financial statements, as the case may be (the 'Relevant Date'), subject to Section 1.02 hereof.

'Hazardous Materials' means those materials, as may be specified by quantity and/or concentrations, that are defined as 'hazardous wastes' and 'hazardous substances' by the Environmental Laws due to their characteristics of being flammable, explosive, toxic, radioactive or otherwise hazardous.

'Indenture' means the Indenture of Mortgage dated as of January 1, 1941 between Borrower and the Pennsylvania Company for Insurances on Lives and Granting Annuities (now known as CoreStates Bank, N.A.), as Trustee or its successor, as amended and supplemented.

'Interest Expense' means, for any fiscal period, all interest accrued (whether or not actually paid) during such period on Credit Obligations.

'Interest Periods' is defined in Section 4.03 hereof.

'Law' means any law (including common law), constitution, statute, treaty, regulation, rule, ordinance, order, injunction, writ, decree or award of any Official Body including any Environmental Laws as defined herein.

'Loan Documents' shall mean this Agreement, the Notes and Letter of Credit Agreements, if any existing with any of the Banks and all amendments, certificates, schedules, reports, notices and exhibits now or hereafter executed or delivered in connection with any of the foregoing as may be in effect from time to time.

'London Business Day' means a day for dealing in deposits in Dollars by and among banks in the London interbank market which is also a Business Day.

'Long Term Funded Debt' means any Credit Obligations with a maturity of one (1) year or more.

'Majority Banks' shall mean (i) at least 66 2/3% of the total principal amount of the Revolving Credit Loans outstanding hereunder, or (ii) if there are no Revolving Credit Loans outstanding, Banks whose Commitments aggregate at least 66 2/3% of the Commitments of all of the Banks, provided,

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however, in instances where only one Bank has outstanding Revolving Credit Loans, the Majority Banks shall mean Banks whose Commitments aggregate at least 66 2/3%.

'Material Litigation' means any suit, action, arbitration, administrative proceeding, criminal prosecution or governmental investigation in which the amount in controversy is at least \$500,000, singularly, and which presents a reasonable likelihood of material adverse effect on Borrower.

'month', with respect to a Euro-Rate Interest Period, means the interval between the Fixed Dates in consecutive calendar months as to such Euro-Rate Interest Period. The 'Fixed Date' in a calendar month as to any Euro-Rate Interest Period shall mean the day in such calendar month numerically corresponding to the first day of such Euro-Rate Interest Period, except (i) if there is no such numerically corresponding day in a calendar month, the 'Fixed Date' for such calendar month shall mean the last London Business Day of such calendar month, (ii) if the first day of such Euro-Rate Interest Period is the last day of a calendar month, the 'Fixed Date' for any calendar month shall mean the last London Business Day of such calendar month and (iii) otherwise, if a numerically corresponding day in a given calendar month is not a London Business Day, the 'Fixed Date' for such calendar month shall mean the next following day that is a London Business Day but not later than the last London Business Day of such calendar month.

'Multiemployer Plan' means any employee benefit plan which is a 'multiemployer plan' within the meaning of Section 4001(a)(3) of ERISA and to which the Borrower or any Controlled Group Member has or, at any time after July 1, 1981, had an obligation to contribute.

'Net Income' means net income (after taxes) including extraordinary gains and/or losses.

'Notes' means the Revolving Credit Notes.

'Official Body' means any government or political subdivision or any agency, authority, bureau, central bank, commission, department or instrumentality of either, or any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic.

'PBGC' means the Pension Benefit Guaranty Corporation established under Title IV Of ERISA or any other governmental agency, department or instrumentality succeeding to the functions of said corporation.

'Person' means any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, joint venture, court or governmental or political subdivision or agency thereof.

'Plan' means any employee pension benefit plan (other than a Multiemployer Plan) to which Section 4021 of ERISA applies and (i) which is maintained for employees of the Borrower or any Controlled Group Member; or (ii) to which the Borrower or any Controlled Group Member made, or was required to make, contributions at any time within the preceding five (5) years.

'Portion' means the Prime Rate Portion, the Federal Funds Rate Portion, the CD Rate Portion, As-Offered Rate Portion and the Euro-Rate Portion, as the case may be.

'Prime Rate' and 'Prime Rate Alternative' are defined in Section 4.02(a) hereof.

'Prime Rate Portion' of any Revolving Credit Loan shall mean at any time the portion, including the whole, of such Revolving Credit Loan bearing interest at such time under the Prime Rate Alternative other than in accordance with the first sentence of Section 4.07(a) hereof. If no Revolving Credit Loan is specified, 'Prime Rate Portion' shall refer to the Prime Rate Portion of all Revolving Credit Loans outstanding at such time.

'Ratable Share' shall mean the proportion that a Bank's Revolving Credit Commitment bears to the Revolving Credit Commitments of all of the Banks, respectively.

'Rate Alternative' means the Prime Rate Alternative, the Federal Funds Alternative, the CD Rate Alternative, the Euro-Rate Alternative, and the As-Offered Rate Alternative, as the case may be.

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'Relevant Date' is defined in the definition of 'GAAP' above.

'Reportable Event' means (i) a reportable event described in Section 4043 of ERISA (other than any such event the thirty (30) day notice requirement for which has been waived by regulation), (ii) a withdrawal by a substantial employer from a Plan to which more than one employer contributes, as referred to in Section 4063(b) of ERISA, (iii) a cessation of operations at a facility causing more than twenty percent (20%) of Plan participants to be separated from employment, as referred to in Section 4068(f) of ERISA or (iv) a failure to make a required installment or other payment with respect to a Plan when due in accordance with Section 412 of the Code or Section 302 of ERISA which causes the total unpaid balance of missed installments and payments (including unpaid interest) to exceed \$750,000.

'Revolving Credit Commitment' means as to any Bank at any time, the amount initially set forth opposite its name on Schedule 1.01(a) hereto in the column labeled, 'Amount of Commitment for Revolving Credit Loans,' and 'Revolving Credit Commitments' means the aggregate Revolving Credit Commitments of all of the Banks.

'Revolving Credit Commitment Termination Date' means the earlier of (A) March 1, 1998, (B) the date on which the Revolving Credit Commitments are terminated in whole pursuant to Section 2.03(a) hereof or (C) the date the Revolving Credit Commitments are terminated pursuant to Article VIII hereof.

'Revolving Credit Loans' means separately a 'Revolving Credit Loan' and means collectively all Revolving Credit Loans or any Revolving Credit Loan made by the Banks or one of the Banks to the Borrower pursuant to Section 2.01 hereof.

'Revolving Credit Notes' means separately a 'Revolving Credit Note' and means collectively all of the Revolving Credit Notes of the Borrower in the form of Exhibit A hereto evidencing Revolving Credit Loans, together with all amendments, extensions, renewals, replacements, refinancings or refundings thereof in whole or in part.

'Short Term Funded Debt' means Credit Obligations with a maturity under one (1) year and shall include all current maturities of Credit Obligations, all as determined in accordance with GAAP.

'Standard Notice' shall mean an irrevocable written notice provided to the Agent on a Business Day which is

(i) the same Business Day of the requested advance, in the case of selection of, conversion to or renewal of the Prime Rate Alternative or the Federal Funds Rate Alternative or prepayment of any Prime Rate Portion or any Federal Funds Rate Portion;

(ii) at least two Business Days in advance in the case of selection of, conversion to or renewal of the CD Rate Alternative or prepayment of any CD Rate Portion;

(iii) at least three London Business Days in advance in case of the selection of, conversion to or renewal of the Euro-Rate Alternative or

prepayment of any Euro-Rate Portion; and

(iv) at least one Business Day in advance in the case of selection of, conversion to or renewal of the As-Offered Rate Alternative or prepayment of any As-Offered Rate Portion.

Standard Notice must be provided to the Agent no later than 10:00 a.m., Philadelphia time, on the last day permitted for such notice.

'Subsidiary' means any corporation or other business entity of which Borrower owns more than 50 percent of the voting shares or more than 50% of other ownership interest.

'Supplemental Indenture' means the Twenty-Eighth Supplemental Indenture dated as of April 1, 1993 to that certain Indenture of Mortgage dated as of January 1, 1941 by Philadelphia Suburban Water Company to CoreStates Bank, N.A. as Trustee.

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'Tangible Net Worth' means, without duplication, the sum of the par or stated value of the capital stock (common and preferred) of the Borrower and its Subsidiaries at the time outstanding, plus the total amount of (or less the amount of any net deficits in) the contributed or capital surplus and the earned surplus of the Borrower and its Subsidiaries, less all intangible assets, all as shown on a Consolidated balance sheet of the Borrower and its Subsidiaries prepared on a Consolidated basis, after due allowance for minority interests, in accordance with GAAP.

Section 1.02. Accounting Terms, (a) All accounting terms not specifically defined herein shall be construed, and all financial data submitted pursuant to this Agreement shall be prepared, in accordance with GAAP applied in a manner consistent with the application of such principles in the preparation of the audited financial statements mentioned in Section 5.05 hereof. (b) If any change in GAAP or any regulatory financial accounting change or directive (which does not affect cash flow) after the date of this Agreement shall be required to be applied to transactions then or thereafter in existence, and a violation of one or more provisions of this Agreement shall have occurred or in the opinion of the Borrower would likely occur which would not have occurred or be likely to occur if no change in accounting principles had taken place,

(i) The Borrower and the Banks agree that such violation shall not be considered to constitute an Event of Default for a period of thirty (30) days from the date the Borrower notifies the Agent and Banks of the application of this subsection 1.02(b);

(ii) The Borrower and the Banks agree in such event to negotiate in good faith an amendment of this Agreement which shall approximate to the extent possible the economic effect of the original financial covenants after taking into account such change in GAAP; and

(iii) If the Borrower and the Banks are unable to negotiate such an amendment within ten (10) days, the Borrower shall have the option of (A) prepaying the Revolving Credit Loan (pursuant to applicable provisions hereof) or (B) submitting the drafting of such an amendment within five (5) Business Days to a firm of independent certified public accountants of nationally recognized standing acceptable to the parties, which shall complete its draft of such amendment within 90 days of submission; if the Borrower and the Agent cannot agree upon the firm, it shall be selected by binding arbitration in the City of Philadelphia, Pennsylvania, in accordance with the rules then obtaining of the American Arbitration Association. If the Borrower does not exercise either such option within said period, then as used in this Agreement, 'GAAP' shall mean GAAP in effect at the Relevant Date. The Borrower and the Banks agree that if the Borrower elects the option in clause (B) above, until such firm has been selected and completes drafting such amendment, no such violation shall constitute an Event of Default.

(c) If any change in GAAP after the date of this Agreement shall be required to be applied to transactions or conditions then or thereafter in existence, and the Banks shall assert that the effect of such change is or shall likely be to distort materially the effect of any of the definitions of financial terms in Article I hereof or any of the covenants of the Borrower in Article VI hereof (the 'Financial Provisions'), so that the intended economic effect of any of the Financial Provisions will not in fact be accomplished,

(i) The Agent shall notify the Borrower of such assertion, specifying the applicable change in GAAP and until otherwise determined as provided below, the specified change in GAAP shall not be made by the Borrower in its financial statements for the purpose of applying the Financial Provisions; and

(ii) The Borrower and the Banks shall follow the procedures set forth in paragraph (ii) and the first sentence of paragraph (iii) of subsection (b) of this Section 1.02. If the Borrower and the Banks are unable to agree on an amendment as provided in said paragraph (ii) and if the Borrower does not exercise either option set forth in the first sentence of said paragraph (iii) within the specified period, then as used in this Agreement 'GAAP' shall mean GAAP in effect at the Relevant Date, except that the applicable change in GAAP shall not be made in applying the Financial Provisions. The parties agree that if the Borrower elects the option in clause (B) of the

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first sentence of said paragraph (iii), until such independent firm has been selected and completes drafting such amendment, the specified change in GAAP shall not be made in applying the Financial Provisions.

(d) all expenses of compliance with this Section 1.02 shall be paid for by the Borrower.

ARTICLE II THE REVOLVING CREDIT COMMITMENT

Section 2.01. The Revolving Credit Commitment. The maximum aggregate amount the Banks shall be obligated to lend to the Borrower at any given time under this Agreement shall be Thirty Million Dollars (\$30,000,000), as such amount may have been reduced under Section 2.03 hereof (the 'Revolving Credit Commitment').

Section 2.02. Fees. (a) The Borrower agrees to pay to the Agent for the account of each Bank, as consideration for such Bank's Revolving Credit Commitment hereunder, a commitment fee (the 'Commitment Fee') equal to 1/8 of 1% per annum (based on a year of 360 days and actual days elapsed) on the average daily unborrowed amount of such Bank's Revolving Credit Commitment as the same may be constituted from time to time. All Commitment Fees shall be payable quarterly in arrears as billed by the Agent on the first Business Day of the calendar month immediately following each calendar quarter.

(b) The Borrower agrees to pay to the Agent for its account as consideration for the utilization of the As-Offered Rate, an As-Offered Utilization Fee equal to \$100 each time an As-Offered Rate is requested by the Borrower. The As-Offered Utilization Fee shall be payable as billed by the Agent.

Section 2.03. Termination or Reduction of the Revolving Credit Commitment. (a) Borrower shall have the right at any time and from time to time, upon thirty (30) Business Days' prior written notice to Agent, to terminate the Revolving Credit Commitments in whole, or in part, without premium or penalty, provided that the Revolving Credit Commitments may not be reduced to an amount which is less than the unpaid principal balance of the Revolving Credit Loans then outstanding plus the principal amount of all Revolving Credit Loans not yet made as to which notice has been given by the Borrower under Section 3.02 hereof, and provided further that if the Revolving Credit Commitments are terminated in their entirety, payment of the outstanding principal balance and all other obligations under this Agreement shall be due and payable in full at the time of such termination. Any partial reduction of the Revolving Credit Commitments shall be in a minimum amount of \$1,000,000. After the date of any reduction of the Revolving Credit Commitments the Commitment Fee shall be calculated upon the Revolving Credit Commitments as so reduced.

(b) Any termination or reduction of the Revolving Credit Commitments shall be permanent and shall reduce the Commitments pro rata. The Revolving Credit Commitments cannot thereafter be restored or increased unless otherwise agreed to by the parties hereto in writing.

ARTICLE III REVOLVING CREDIT LOANS

Section 3.01. The Bank's Obligation to Make Revolving Loans. Subject to the terms and conditions of this Agreement, and relying upon the representations and warranties herein set forth, each Bank severally agrees to make revolving credit loans ('Revolving Credit Loans') to the Borrower at any time or from time to time on or after the date hereof to, but not including, the Revolving Credit Commitment Termination Date in an aggregate principal amount not to exceed at any one time such Bank's Revolving Credit Commitment. Within such limits of time and amount and subject to the other provisions of this Agreement, the Borrower may borrow, repay and reborrow pursuant to this Section 3.01; provided, however, that each Revolving Credit Loan shall be in the minimum amount of (i) \$100,000, with respect to any Revolving Credit Loan bearing interest at the Federal Funds Alternative

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or the Prime Rate Alternative, (ii) \$500,000, with respect to any Revolving Credit Loan bearing interest at the CD Rate Alternative or Euro-Rate Alternative and (iii) \$2,000,000, with respect to any Revolving Credit Loan bearing interest at the As-Offered Rate Alternative. All Revolving Credit Loans shall be evidenced by the Revolving Credit Notes.

Section 3.02. Nature of Banks' Obligations with Respect to Revolving Credit Loans. (a) Each Bank shall be obligated to participate in each request for Revolving Credit Loans pursuant to Section 3.03 hereof in accordance with its Ratable Share. The aggregate of each Bank's Revolving Credit Loans outstanding hereunder to the Borrower at any time shall never exceed its Revolving Credit Commitment as the same may be amended from time to time. The obligations of each Bank hereunder are several and not joint. The failure of any Bank to perform its obligations hereunder shall not affect the obligations of the Borrower to any other party nor shall any other party be liable for the failure of such Bank to perform its obligations hereunder. The Banks shall have no obligation to make Revolving Credit Loans hereunder on or after the Revolving Credit Commitment Termination Date.

(b) In the event any Bank is unable to fund all or a portion of its Ratable Share of a Revolving Credit Loan due to it exceeding its Commitment and such failure to fund was a result of it being awarded an As-Offered Rate Revolving Credit Loan (which was funded) then the remaining unfunded portion of such Revolving Credit Loan shall be funded by the remaining Banks that have unused Commitments hereunder based on a calculation which reflects a gross-up of each remaining Banks respective Commitment in relative proportion to their respective percentages of Commitments at such time. Such calculation by Agent shall be conclusive and binding upon each Bank absent manifest error.

Section 3.03. Making the Loans. (a) Subject to Section 3.03(b) below, whenever the Borrower desires that the Banks make a Revolving Credit Loan, the Borrower will provide Standard Notice to the Agent setting forth the following information:

(i) The proposed Borrowing Date;

(ii) The total principal amount of such Revolving Credit Loan, which shall be the sum of the principal amounts selected pursuant to subsection (a) (iii) of this Section 3.03;

(iii) The Rate Alternative or Alternatives selected in accordance with Section 4.02 hereof and the principal amounts selected in accordance with Section 3.01 hereof of the Prime Rate Portion, the Federal Funds Rate Portion, As-Offered Rate Portion and each Funding Segment of the CD Rate Portion, the Euro-Rate Portion, and the As-Offered Rate Portion, as the case may be, of such Revolving Credit Loan; and

(iv) With respect to each such Funding Segment, the Interest Period selected in accordance with Section 4.03 hereof to apply to such Funding Segment.

Not later than 3:00 p.m. (Philadelphia time) on the Borrowing Date specified in such Standard Notice, Agent will make the proceeds of such borrowing available to Borrower by wire transfer to an account designated by Borrower.

(b) Whenever the Borrower desires that a Bank or the Banks make a Revolving Credit Loan bearing interest at the As-Offered Rate, the Borrower will provide Standard Notice to the Agent's Loan Administration Department, Attention: Ms. Flossie Bowers setting forth the information described in Section 3.03(a) above.

Upon receipt of such Standard Notice the Agent's Loan Administration Department will solicit bids prior to 12:00 p.m. from the Banks and will notify the Borrower of the As-Offered Rate of each Bank. If the As-Offered Rate Alternative is selected by the Borrower, Borrower agrees to accept all bids in the order of ascending rates until the amount of Borrower's funding needs are satisfied. In no case shall requests for Revolving Credit Loans bearing interest at an As-Offered Rate be less than \$2,000,000. Upon acceptance by the Borrower of a Bank's or Banks' bid, as the case may be, and funding by the Bank or Banks, as the case may be, such Revolving Credit Loan shall be deemed to be made by such Bank or Banks and not by the Banks pro rata.

3.04. Making Revolving Credit Loans. The Agent shall promptly after receipt by it of a Notice of Borrowing Request pursuant to Section 3.03, notify the Banks of its receipt of such Notice of

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Borrowing specifying: (i) the proposed Borrowing Date and the time and method of disbursement of such Revolving Credit Loan; (ii) the amount and type of such Revolving Credit Loan and the applicable CD Rate Interest Period, Euro-Rate Interest Period or As-Offered Rate Interest Period (if any); and (iii) the apportionment among the Banks of the Revolving Credit Loans as determined by the Agent in accordance with Section 3.02 hereof. Each Bank shall remit the principal amount of each Revolving Credit Loan to the Agent such that the Agent is able to, and the Agent shall, to the extent the Banks have made funds available to it for such purpose, fund such Revolving Credit Loan to the Borrower in U.S. Dollars and immediately available funds at the Agent's Office prior to 2:00 p.m. (Philadelphia time) on the Borrowing Date, provided, that, if any Bank fails to remit such funds to the Agent in a timely manner the Agent may elect in its sole discretion to fund with its own funds the Revolving Credit Loan of such Bank on the Borrowing Date.

Section 3.05. Revolving Credit Notes. Concurrently with the execution of this Agreement, the Borrower shall execute and deliver to the Banks the Revolving Credit Notes in the principal amount equal to the amount of each such Bank's Revolving Credit Commitment.

Section 3.06. Payment and Prepayment of Revolving Loans.

(a) Interest. Accrued interest on each Revolving Credit Loan bearing interest at the Prime Rate Alternative, the Federal Funds Rate Alternative or the As-Offered Rate Alternative shall be payable monthly within five (5) Business Days after receipt of a written statement from the Agent setting forth the interest calculation. Accrued interest on each Revolving Credit Loan bearing interest at the CD Rate Alternative or the Euro-Rate Alternative shall be payable at the expiration of each Interest Period (or if such Interest Period is for six (6) months, at each quarterly anniversary of the commencement of the Interest Period) within five (5) Business Days after receipt of a written statement from the Agent setting forth the interest calculation.

(b) Principal. The outstanding balance of the Revolving Credit Loans and all other obligations hereunder shall be due and payable in full on the Revolving Credit Commitment Termination Date.

Borrower may from time to time prepay the outstanding balance of the Revolving Credit Loans in whole or in part without penalty or premium subject to the terms of this Section 3.06 and Sections 3.07 and 3.08 hereof. Any prepayment shall be in the minimum amount of (i) \$100,000 with respect to Revolving Credit Loans bearing interest at the Prime Rate Alternative and Federal Funds Rate Alternative, (ii) \$500,000 with respect to Revolving Credit Loans bearing interest at the CD Rate Alternative and Euro-Rate Alternative and (iii) \$2,000,000 with respect to Revolving Credit Loans bearing interest at the As-Offered Rate Alternative. Interest on any prepayment shall be payable within five (5) Business Days after receipt of a written statement from Agent setting forth the interest calculation.

(c) Late Payments. Any payment of principal not paid when due (whether by acceleration or otherwise) shall bear interest at a floating per annum rate equal to the Prime Rate plus one percent (1%).

All payments shall be made to the Agent at Mellon Bank, N.A., Mellon Independence Center, Attn: Loan Administration, Flossie Bowers, 199-5220, 701 Market Street, Philadelphia, PA 19106, in funds immediately available to Agent or at such other office or offices of the Agent or branch, subsidiary or affiliate thereof as may be designated in writing from time to time by the Agent

to the Borrower.

Section 3.07. Application of Payments and Prepayments. All payments and prepayments of the outstanding balance of the Revolving Credit Loans shall be applied to the Revolving Credit Loans in such order and to such extent as shall be specified by Borrower, by notice to the Agent at the time of such payment or prepayment. If no such notice is received by the Agent, the payment or prepayment shall be applied to the Revolving Credit Loans in such order and to such extent as the Agent shall determine, provided that in making such determination the Banks shall use its best efforts to minimize the costs and expense for which the Banks may be entitled to compensation under Section 3.08 hereof.

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Section 3.08. Compensation for Certain Losses, Costs and Expenses. (a) Increased Costs or Reduced Return Resulting From Taxes, Reserves, Capital Adequacy Requirements, Expenses, Etc. If any Law or guideline or interpretation or application thereof by any Official Body charged with the interpretation or administration thereof or compliance with any request or directive of any Official Body (whether or not having the force of law) now existing or hereafter adopted:

(i) subjects any Bank to any tax or changes the basis of taxation with respect to this Agreement, the Notes, the Revolving Credit Loans or payments by the Borrower of principal, interest, Commitment Fee, As-Offered Utilization Fee or other amounts due from the Borrower hereunder or under the Notes (except for taxes on the overall net income of any such Bank imposed by any Official Body),

(ii) imposes, modifies or deems applicable any reserve, special deposit or similar requirement against credits or commitments to extend credit extended by, assets (funded or contingent) of, deposits with or for the account of, or other acquisition of funds by, any Bank (other than requirements expressly included herein in the determination of the CD Rate or the Euro-Rate, as the case may be, hereunder),

(iii) imposes, modifies or deems applicable any capital adequacy or similar requirement (a) against assets (funded or contingent) of, or credits or commitments to extend credit extended by, any Bank, or (b) otherwise applicable to the obligations of any Bank under this Agreement, or

(iv) imposes upon any Bank any other condition or expense with respect to this Agreement, the Notes or its making, maintenance or funding of any part of the Revolving Credit Loans,

and the result after the date hereof of any of the foregoing is to increase the cost to, reduce the income receivable by, or impose any expense (including loss of margin) upon any Bank with respect to this Agreement, the Notes or the making, maintenance or funding of any part of the Revolving Credit Loans (or, in the case of any capital adequacy or similar requirement, to have the effect of reducing the rate of return on any Bank's capital, taking into consideration such Bank's policies with respect to capital adequacy) by an amount which such Bank deems to be material (such Bank being deemed for this purpose to have made, maintained or funded the Federal Funds Rate Portion and As-Offered Rate Portion and each Funding Segment of the CD Rate Portion and the Euro-Rate Portion from a Corresponding Source of Funds), such Bank shall from time to time notify the Borrower of the amount determined in good faith (using any averaging and attribution methods) by such Bank to be necessary to compensate such Bank for such increase, reduction or imposition provided that if any of the foregoing results in retroactive treatment the Borrower shall only be obligated to compensate such Bank for such increase, reduction or imposition retroactively up to one year. Such amount shall be due and payable by the Borrower to such Bank sixty (60) Business Days after such notice is given. Such Bank agrees that it will notify the Borrower of the occurrence of any event that would give rise to a payment under this Section 3.08(a).

(b) Indemnity. In addition to the compensation required by subsection (a) of this Section 3.08, the Borrower shall indemnify each Bank against any loss or expense (including loss of margin) which each Bank has sustained or incurred as a consequence of any

(i) payment, prepayment or conversion of any part of any Funding Segment of the CD Rate Portion, the Euro-Rate Portion or the As-Offered

Rate Portion on a day other than the last day of the corresponding Interest Period (whether or not such payment, prepayment or conversion is mandatory or automatic and whether or not such payment or prepayment is then due),

(ii) attempt by the Borrower to revoke (expressly, by later inconsistent notices or otherwise) in whole or part any notice stated herein to be irrevocable (any Bank having in its sole discretion the options (a) to give effect to such attempted revocation and obtain indemnity under this Section 3.08(b) or (b) to treat such attempted revocation as having no force or effect, as if never made), or

(iii) default by the Borrower in the performance or observance of any covenant or condition contained in this Agreement or the Notes, including without limitation any failure of the Borrower

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to pay when due (by acceleration or otherwise) any principal, interest, Commitment Fee or any other amount due hereunder or under the Notes.

If any Bank sustains or incurs any such loss or expense it shall from time to time notify the Borrower of the amount determined in good faith by such Bank to be necessary to indemnify such Bank for such loss or expense (such Bank being deemed for this purpose to have made, maintained or funded the Federal Funds Rate Portion and As-Offered Rate Portion and each Funding Segment of the CD Rate Portion and the Euro-Rate Portion from a Corresponding Source of Funds). Such amount shall be due and payable by the Borrower to such Bank ten Business Days after such notice is given.

(c) In the event the Borrower is required to make payment under Section 3.08(a) hereof, the Borrower in its sole discretion may require that such Bank(s) and its respective Revolving Credit Commitment be replaced in its entirety; first, by the remaining Banks hereunder (if such remaining Banks so agree) and second, to any other bank or financial institution reasonably acceptable to each of the other Banks.

Section 3.09. Effect of Payments or Prepayments. Any payment or prepayment of the outstanding balance of the Revolving Credit Loans as provided in Section 3.06 hereof prior to the Revolving Credit Commitment Termination Date shall restore the availability of the Revolving Credit Commitment to the extent of such payment or prepayment, unless the Revolving Credit Commitments have been terminated by the Borrower pursuant to Section 2.03 or by any Bank pursuant to Section 8.01 on or before the date of such payment or prepayment.

Section 3.10. Form of Notice. Any notice from the Borrower to the Agent or from the Agent to the Borrower required or permitted by this Article III shall be sent by telephone confirmed by first class mail or fax (which shall be effective when telephoned), by fax (which shall be effective when received) or by first-class or first-class express mail (which shall be effective two Business Days after such notice is deposited), in all cases with charges prepaid.

Section 3.11. Funding by Euro-Rate Funding Office. Each Bank shall have the right from time to time, prospectively or retrospectively, without notice to the Borrower, to deem any branch, subsidiary or affiliate of such Bank to have made, maintained or funded any Euro-Rate Portion at any time. Any branch, subsidiary or affiliate so deemed shall be known as a 'Euro-Rate Funding Office.' Each Bank shall deem any Euro-Rate Portion or the funding therefor to have been transferred to a different Euro-Rate Funding Office if such transfer would lessen compensation payable by the Borrower under Section 3.08(a) hereof, and if such Bank determines in its sole discretion that such transfer would be practicable and would not have a material adverse effect on such Revolving Credit Loan, such Bank or any Euro-Rate Funding Office (it being assumed for purposes of such determination that each Euro-Rate Portion is actually made or maintained by or funded through the corresponding Euro-Rate Funding Office).

ARTICLE IV INTEREST

Section 4.01. Accrual of Interest on Revolving Loans. Each Revolving Credit Loan shall accrue interest at the Rate Alternative applicable to such Revolving Credit Loan in accordance with this Article IV. Interest on each Revolving Credit Loan bearing interest at the Prime Rate Alternative or the Federal Funds Rate Alternative shall accrue interest subject to the provisions of this Article IV, during the time such Revolving Credit Loan is outstanding.

Interest on each Revolving Credit Loan bearing interest at the CD Rate Alternative, the Euro-Rate Alternative or the As-Offered Rate Alternative shall accrue during the Interest Period applicable to such Revolving Credit Loan in accordance with this Article IV.

Section 4.02. Rate Alternatives. The unpaid principal amount of the Revolving Credit Loans shall bear interest for each day until due on one or more bases selected by the Borrower from among the Rate Alternatives set forth below, it being understood that subject to the provisions of this

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Agreement, the Borrower may select different Rate Alternatives to apply simultaneously to different parts of the Revolving Credit Loans and may select different Funding Segments to apply simultaneously to different parts of the CD Rate Portion, the Euro-Rate Portion or the As-Offered Rate Portion:

(a) Prime Rate Alternative: A rate per annum for each day equal to the Prime Rate for such day, such interest rate to change automatically and be effective from time to time, effective as of the effective date of each change in the Prime Rate without notice to the Borrower. 'Prime Rate', as used herein, means the interest rate per annum announced by the Agent from time to time as its prime rate, and is used by the Agent as a reference rate with respect to different interest rates charged to borrowers. The determination and statement of the 'Prime Rate' shall not in any way preclude the Agent from making loans to other borrowers at rates which are higher or lower than the Prime Rate.

(b) Federal Funds Rate Alternative: A rate per annum for each day equal to the Federal Funds Effective Rate for such day plus .75%, such interest rate to change automatically and be effective from time to time, effective as of the date of each change in the Federal Funds Effective Rate without notice to the Borrower. 'Federal Funds Effective Rate' for any day, as used herein, shall mean the rate per annum (rounded upward to the nearest 1/100 of 1%) announced by the Federal Reserve Bank of New York (or any successor) on such day as being the weighted average of the rates on overnight Federal funds transactions arranged by Federal funds brokers on the previous trading day, as computed and announced by such Federal Reserve Bank (or any successor) in substantially the same manner as such Federal Reserve Bank computes and announces the weighted average it refers to as the 'Federal Funds Effective Rate' as of the date of this Agreement; provided, if such Federal Reserve Bank (or its successor) does not announce such rate on any day, the 'Federal Funds Effective Rate' for such day shall be the Federal Funds Effective Rate for the last day on which such rate was announced.

(c) CD Rate Alternative: A rate per annum for each day equal to the CD Rate for such day plus .375%. 'CD Rate' for any day, as used herein, shall mean for each Funding Segment of the CD Rate Portion corresponding to a proposed or existing CD Rate Interest Period the rate per annum determined by the Agent by adding

(i) the rate per annum obtained by dividing (the resulting quotient to be rounded upward to the nearest 1/100 of 1%) (a) the rate of interest (which shall be the same for each day in such CD Rate Interest Period) determined in good faith by the Agent in accordance with its usual procedures to be the average of the secondary market bid rates at or about 11:00 o'clock a.m., Eastern Time, on the first day of such CD Rate Interest Period by dealers of recognized standing in negotiable certificates of deposit for the purchase at face value of negotiable certificates of deposit of major money center banks for delivery on such day in amounts comparable to such Funding Segment and having maturities comparable to such CD Rate Interest Period by (b) a number equal to 1.00 minus the CD Rate Reserve Percentage and

(ii) the Assessment Rate.

The 'CD Rate' may also be expressed by the following formula:

$$\text{CD Rate} = \frac{\begin{array}{l} \text{[average of the secondary market} \\ \text{[bid rates determined by the Agent} \\ \text{[per Subsection (i) (a)} \\ \text{[1.00 - CD Rate Reserve Percentage} \end{array}}{\begin{array}{l} \text{]} \\ \text{]} \\ \text{]} \\ \text{]} \end{array}}{\begin{array}{l} \text{]} \\ \text{]} \\ \text{]} \\ \text{]} \end{array}} + \text{Assessment Rate}$$

The 'CD Rate Reserve Percentage' for any day is the maximum effective percentage (expressed as a decimal, rounded upward to the nearest 1/100 of 1%), as determined in good faith by the Agent, which is in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including without limitation supplemental, marginal and emergency reserve requirements) for a member bank of such System in respect of nonpersonal time deposits in Dollars in the United States. The CD Rate shall be adjusted automatically and effective as of the effective date of each change in the CD Rate Reserve Percentage without notice to the Borrower.

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The 'Assessment Rate' for any day is the rate per annum (rounded upward to the nearest 1/100 of 1%) determined in good faith by the Agent in accordance with its usual procedures to be the maximum effective assessment rate per annum payable by a bank insured by the Federal Deposit Insurance Corporation (or any successor) for such day for insurance on Dollar time deposits, exclusive of any credit allowed against such annual assessment on account of assessment payments made or to be made by such bank. The CD Rate shall be adjusted automatically and effective as of the effective date of each change in the Assessment Rate without notice to the Borrower.

The Agent shall give prompt notice to the Borrower of the CD Rate so determined or adjusted.

(d) Euro-Rate Alternative: A rate per annum for each day equal to the Euro-Rate for such day plus .25%. 'Euro-Rate' for any day, as used herein, shall mean for each Funding Segment of the Euro-Rate Portion corresponding to a proposed or existing Euro-Rate Interest Period the rate per annum determined by the Agent by dividing (the resulting quotient to be rounded upward to the nearest 1/100 of 1%) (i) the rate of interest (which shall be the same for each day in such Euro-Rate Interest Period) determined in good faith by the Agent in accordance with its usual procedures to be the average of the rates per annum for deposits in Dollars offered to major money center banks in the London interbank market at approximately 11:00 o'clock a.m., London time, two London Business Days prior to the first day of such Euro-Rate Interest Period for delivery on the first day of such Euro-Rate Interest Period in amounts comparable to such Funding Segment and having maturities comparable to such Euro-Rate Interest Period by (ii) a number equal to 1.00 minus the Euro-Rate Reserve Percentage.

The 'Euro-Rate' may also be expressed by the following formula:

	[average of the rates offered to major money]
	[center banks in the London interbank market]
Euro-Rate	[determined by the Agent per subsection (i)]
	[1.00 - Euro-Rate Reserve Percentage]

The 'Euro-Rate Reserve Percentage' for any day is the maximum effective percentage (expressed as a decimal fraction, rounded upward to the nearest 1/100 of 1%), as determined in good faith by the Agent, which is in effect on such day as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the reserve requirements (including, without limitation, supplemental, marginal and emergency reserve requirements) with respect to eurocurrency funding (currently referred to as 'Eurocurrency liabilities') of a member bank in such System. The Euro-Rate shall be adjusted automatically and be effective as of the effective date of each change in the Euro-Rate Reserve Percentage without notice to the Borrower.

The Agent shall give prompt notice to the Borrower of the Euro-Rate so determined or adjusted.

(e) As-Offered Rate Alternative: A rate per annum for each day equal to the As-Offered Rate for such day. As-Offered Rate for any day, as used herein, shall mean for each Funding Segment of the As-Offered Interest Period the rate per annum quoted by such Bank as its as-offered rate for such period.

The Agent's Loan Administration Department upon Borrower's request shall solicit bids from each Bank. Borrower shall accept bids in order of ascending rates until Borrower's funding needs are satisfied, as more particularly described in Sections 3.03(b) and 4.04(b).

Section 4.03. Interest Periods. At any time when the Borrower shall select, convert to or renew the CD Rate Alternative, the Euro-Rate Alternative or the As-Offered Rate Alternative to apply to any

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part of the Revolving Credit Loans, it shall fix one or more periods during which each such Rate Alternative shall apply, such periods (the 'Interest Periods') being set forth in the chart below:

RATE ALTERNATIVE	AVAILABLE INTEREST PERIODS
CD Rate Alternative	30, 60, 90 or 180 days ('CD Rate Interest Period');
Euro-Rate Alternative	One, two, three or six months ('Euro-Rate Interest Period');
As-Offered Rate Alternative	One through thirty days ('As-Offered Rate Interest Period');

provided, that:

(a) Each CD Rate Interest Period which would otherwise end on a day which is not a Business Day shall be extended to the next succeeding Business Day;

(b) Each Euro-Rate Interest Period shall begin on a London Business Day, and the duration of each Euro-Rate Interest Period shall be determined in accordance with the definition of the term 'month' herein; and

(c) The Borrower may not fix an Interest Period that would end after the Revolving Credit Commitment Termination Date.

Section 4.04. Conversion or Renewal of Rate Alternatives.

(a) Conversion or Renewal. Subject to Section 4.04(b) hereof and provided no default or Event of Default exists at such time the Borrower may convert any part of the Revolving Credit Loans from any Rate Alternative or Alternatives to one or more different Rate Alternatives and may renew the CD Rate Alternative, the Euro-Rate Alternative or the As-Offered Rate Alternative as to any Funding Segment of the CD Rate Portion, the Euro-Rate Portion or the As-Offered Rate Portion:

(i) at any time with respect to conversion from the Prime Rate Alternative or the Federal Funds Rate Alternative,

(ii) at the expiration of any Interest Period with respect to conversions from or renewals of the CD Rate Alternative, the Euro-Rate Alternative or the As-Offered Rate Alternative, as the case may be, as to the Funding Segment corresponding to such expiring Interest Period, or

(iii) on the date specified in a notice by the Agent pursuant to Section 4.07(b) hereof with respect to conversions from the CD Rate Alternative, the Euro-Rate Alternative or the As-Offered Rate Alternative, as the case may be.

Whenever the Borrower desires to convert or renew any Rate Alternative or Alternatives the Borrower shall provide to the Agent Standard Notice setting forth the following information:

(A) The Borrowing Date on which the proposed conversion or renewal is to be made;

(B) The principal amounts selected in accordance with Section 3.01 hereof of the Prime Rate Portion, the Federal Funds Rate Portion and each Funding Segment of the CD Rate Portion, the Euro-Rate Portion and the As-Offered Rate Portion, as the case may be, to be converted from or renewed;

(C) In the case of conversions, the Rate Alternative or Alternatives selected in accordance with Section 4.02 hereof and the principal amounts selected in accordance with Section 3.01 of the Prime Rate Portion, the Federal Funds Rate Portion and each Funding Segment of the CD Rate Portion, the Euro-Rate Portion and the As-Offered Rate Portion, as the case may be, to be converted to; and

(D) With respect to each Funding Segment to be converted to or renewed, the Interest Period selected in accordance with Section 4.03 hereof to apply to such Funding Segment.

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Standard Notice having been so provided, after the date specified in such Standard Notice interest shall be calculated upon the principal amount of the Revolving Credit Loans as so converted or renewed.

(b) As-Offered Rate. Whenever the Borrower desires to convert to an As-Offered Rate Alternative or renew a Revolving Credit Loan bearing interest at an As-Offered Rate Alternative, the Borrower will provide Standard Notice to the Agent's Loan Administration Department, Attention: Ms. Flossie Bowers, setting forth the information described in Section 4.04(a) above. Upon receipt of such Standard Notice, the Agent's Loan Administration Department will solicit bids from the Banks and will notify the Borrower of the As-Offered Rate of each Bank. If the As-Offered Rate Alternative is selected by the Borrower, Borrower agrees to accept all bids in the order of ascending rates until the amount of Borrower's funding needs are satisfied. In no event shall requests for Revolving Credit Loans bearing interest at the As-Offered Rate be less than \$2,000,000. Upon acceptance by the Borrower of a Bank's or Banks' bid, as the case may be, and the funding by the Bank or Banks such Revolving Credit Loan shall be deemed to be made by such Bank or Banks and not by the Banks pro rata.

(c) Failure to Convert or Renew. Absent due notice from the Borrower of conversion or renewal in the circumstances described in Section 4.04(a)(ii) hereof, any part of the CD Rate Portion, Euro-Rate Portion or As-Offered Rate Portion for which such notice is not received shall be converted automatically to the Prime Rate Alternative on the last day of the expiring Interest Period.

Section 4.05. Calculation of Accrued Interest. The accrual of interest under this Article IV shall be computed for the actual number of days elapsed, and on the basis of a year of 360 days (on a 365/360 day basis except that in a leap year the computation shall be on a 366/360 days basis).

Section 4.06. Payment of Interest. Interest on each Revolving Credit Loan accrued in accordance with this Article IV shall be due and payable in accordance with Article III hereof.

Section 4.07. Unavailability of Certain Loans. (a) Federal Funds Effective Rate Unascertainable; Impracticability. If at any time the Banks shall have determined in good faith that:

(i) the Federal Reserve Bank of New York (or its successor) shall not have announced a Federal Funds Effective Rate on any day other than a Saturday, Sunday, public holiday or other day on which no Federal Funds Effective Rate would normally be announced under the practices of such Federal Reserve Bank as of the date hereof, at the time when the Federal Funds Effective Rate on such day would normally be announced under the practices of such Federal Reserve Bank as of the date hereof,

(ii) the effective cost to any Bank of funding any proposed or existing Federal Funds Rate Portion of the Revolving Credit Loans from a Corresponding Source of Funds shall exceed the Federal Funds Effective Rate, or

(iii) the making, maintenance or funding of any part of the Federal Funds Rate Portion of the Revolving Credit Loans has been made impractical or unlawful by compliance with any Bank in good faith with any Law or guideline or interpretation or administration thereof by any Official Body charged with the interpretation or administration thereof or with any request or directive of any such Official Body (whether or not having the force of law);

then, and in any such event, interest on the Federal Funds Rate Portion of the Revolving Credit Loans shall be at the Prime Rate Alternative until such Bank shall have later determined in good faith that the circumstances giving rise to such previous determination no longer exist. If and when the Banks shall make such a later determination, interest on the Federal Funds Rate Portion of the Revolving Credit Loans shall again be at the Federal Funds Rate Alternative.

The Banks shall notify the Agent (and the Agent shall notify the Borrower) forthwith of any determination under this Section 4.07(a). The Borrower may convert any part of the Federal Funds Rate Portion of the Revolving Credit Loans

to another Alternative or Alternatives in accordance with the provisions of this Agreement during the continuance of any condition described in this Section 4.07(a). The Borrower may select or convert any part of the Revolving Credit Loans to the Federal

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Funds Rate Alternative in accordance with the provisions of this Agreement during the continuance of any condition described in this Section 4.07(a), although during the continuance of such condition interest on such part of the Revolving Credit Loans shall be at the Prime Rate Alternative in accordance with this Section 4.07(a).

(b) CD Rate or Euro-Rate Unascertainable; Impracticability. If,

(i) on any date on which a CD Rate or a Euro-Rate would otherwise be set any Bank shall have in good faith determined that:

(A) adequate and reasonable means do not exist for ascertaining such CD Rate or Euro-Rate,

(B) a contingency has occurred which materially and adversely affects the ability of any Bank to obtain funds in the secondary market for negotiable certificates of deposit maintained by dealers of recognized standing or the interbank eurodollar market, as the case may be, or

(C) the effective cost to any Bank of funding a proposed Funding Segment of the CD Rate Portion or the Euro-Rate Portion from a Corresponding Source of Funds shall exceed the CD Rate or the Euro-Rate, as the case may be, applicable to such Funding Segment, or

(ii) at any time any Bank shall have determined in good faith that the making, maintenance or funding of any part of the CD Rate Portion or the Euro-Rate Portion has been made impracticable or unlawful by compliance by any Bank in good faith with any Law or guideline or interpretation or administration thereof by any Official Body charged with the interpretation or administration thereof or with any request or directive of any such Official Body (whether or not having the force of law);

then, and in any such event, the Agent shall notify the Borrower of such determination. Upon such date as shall be specified in such notice (which shall not be earlier than the date such notice is given) the obligation of the Banks to allow the Borrower to select, convert to or renew the CD Rate Alternative or the Euro-Rate Alternative, as the case may be, shall be suspended until such Bank shall have later notified the Borrower of the Bank's determination in good faith that the circumstances giving rise to such previous determination no longer exist.

If any Bank notifies the Borrower of a determination under subsection (ii) of this Section 4.07(b) the Borrower shall, as to the CD Rate Portion or the Euro-Rate Portion, as the case may be, on the date specified in such notice either convert such Portion to another Rate Alternative or Alternatives in accordance with Section 4.02 hereof or prepay such Portion in accordance with Section 3.06(b) hereof. Absent due notice from the Borrower of conversion or prepayment the CD Rate Portion or the Euro-Rate Portion, as the case may be, automatically shall be converted to the Prime Rate Alternative upon such specified date.

If at the time any Bank makes a determination under subsection (i) or (ii) of this Section 4.07(b) and the Borrower has previously notified the Agent that it wishes to select, convert to or renew the CD Rate Alternative or the Euro-Rate Alternative, as the case may be, but such Alternative has not yet gone into effect, such notification shall be deemed to provide for selection of, conversion to or renewal of the Prime Rate Alternative instead of the CD Rate Alternative or the Euro-Rate Alternative, as the case may be.

(c) In the event the Borrower is required to make payment under Sections 4.07(a) and 4.07(b) hereof, the Borrower in its sole discretion may require that such Bank(s) and its respective Revolving Credit Commitment be replaced in its entirety; first, by the remaining Banks hereunder (if such remaining Banks so agree) and second, to any other bank or financial institution, reasonably acceptable to each of the other Banks.

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Section 4.08. Maximum Interest. No provision of this Agreement or any Revolving Loan Note shall require the payment or permit the collection of interest in excess of the highest rate permitted by applicable law.

Section 4.09. Form of Notice. Any notice from the Borrower to the Agent or from the Agent to the Borrower required or permitted by this Article IV shall be sent by telephone confirmed by first class mail or fax (which shall be effective when telephoned), by fax (which shall be effective when received) or by first-class or first-class express mail (which shall be effective two Business Days after such notice is deposited), in all cases with charges prepaid.

Section 4.10. Pro-Rata Treatment of Banks; Payments. (a) Each borrowing, and each selection of, conversion to or renewal of any Rate Alternative and each payment or prepayment by the Borrower with respect to principal, interest, Commitment Fee, or other fees or amounts due from Borrower hereunder to the Banks with respect to the Revolving Credit Loans, shall (except as provided in Sections 3.02(b), 3.03(b) and 4.04(b), Section 4.07 [Unavailability CD Rate or Euro-Rate Unascertainable] or Section 2.02(b) [Fees], hereof) be made in proportion to Revolving Credit Loans outstanding from each Bank and if no such Revolving Credit Loans are then outstanding, in proportion to the Ratable Share of each Bank.

In instances where a Revolving Credit Loan is funded pursuant to Section 3.02(b) hereof, any payments and/or prepayments shall be applied in the proportions in which such Revolving Credit Loan was originally funded.

(b) All payments and prepayments received by Agent in respect of principal, interest, Commitment Fees, or other fees or amounts due from the Borrower to the Banks hereunder shall be promptly distributed by the Agent to the Banks in immediately available funds; provided, that, in the event payments are received by 11:00 a.m. (Philadelphia time) by the Agent with respect to the Loans and such payments are not distributed to the Banks on the same day received by the Agent, the Agent shall pay the Banks the Federal Funds Effective Rate with respect to the amount of such payments for each day held by the Agent and not distributed to the Banks.

ARTICLE V REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Agent and each Bank as of the date hereof as follows:

Section 5.01. Existence. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and is duly qualified as a foreign corporation and authorized to do business in all other jurisdictions wherein the nature of its business or property makes such qualifications necessary. The Borrower has all requisite power and authority, corporate and otherwise, to conduct its business and to own its properties.

Section 5.02. Authorization, Execution and Delivery. The execution, delivery and performance by the Borrower of this Agreement, the Revolving Credit Notes issued or to be issued and all other Loan Documents have been duly authorized by all necessary corporate action, and do not and will not violate any provision of Law or of the articles of incorporation or by-laws of the Borrower or result in a breach of or constitute a default under any agreement, indenture or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

Section 5.03. Compliance with Laws and Other Agreements. To the best of its knowledge, the Borrower is in compliance with all Laws and agreements which affect in any material way the Borrower, its assets or the operation of its business and has not received, and has no knowledge of such material non-compliance.

Section 5.04. Validity of Agreement and Notes. This Agreement, the Revolving Credit Notes issued or to be issued, and each of the other Loan Documents have, or when delivered will be, duly

executed and delivered by the Borrower and constitute, valid and legally binding obligations of the Borrower, enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other laws or equitable principles affecting

creditors' rights generally. Each officer of the Borrower executing this Agreement, the Revolving Credit Notes, and each of the other Loan Documents is duly and properly in office and fully authorized to execute the same.

Section 5.05. Financial Information. (a) The balance sheet at December 31, 1992, and the statement of income and cash flow of the Borrower for the fiscal year ending on such date, certified by KPMG Peat Marwick, and the balance sheet at September 30, 1993 and the statement of income and cash flow of the Borrower and Philadelphia Suburban Corporation (the Borrower's parent corporation) for the nine month period ended September 30, 1993, included in the quarterly report on Form 10-Q for Philadelphia Suburban Corporation as filed with the Securities and Exchange Commission, copies of all of which have been furnished to Banks, are, including in each case any related schedules and notes appended thereto, complete and correct, and fairly present the financial condition of the Borrower and of Philadelphia Suburban Corporation, and the results of operations, as the case may be, at such dates and for the periods covered thereby, all in accordance with GAAP consistently applied (the 'Financial Statements'). As of the date hereof, there have been no material adverse changes in the Borrower's business, operations, properties or financial condition since September 30, 1993. The Borrower does not know of any fact (other than matters of a general economic or political nature) which materially adversely affects, or, so far as the Borrower can now reasonably foresee, will materially adversely affect, the business, operations, properties or financial position of the Borrower or the performance by the Borrower of its obligations under this Agreement and the other Loan Documents.

(b) The Borrower has no Bank Indebtedness other than as shown in the Financial Statements and except as shown on Schedule 5.05(b) hereof.

(c) The Borrower has no 'investments' (as such term is defined under GAAP), whether by stock purchase, capital contribution, loan, advance, purchase of property or otherwise, in any Person, other than as shown in the Financial Statements.

Section 5.06. The Indenture. The Borrower has made a true, correct and complete copy of the Indenture available for the Banks' inspection.

Section 5.07. Litigation. Except as disclosed in Schedule 5.07 attached hereto, there is no Material Litigation pending or, to the knowledge of the Borrower, threatened against the Borrower or any of its properties before any Official Body with respect to which either the Borrower has not provided notice of to its insurance carriers or, if so reported, such insurance carriers have denied coverage or have reserved rights as to coverage.

Section 5.08. Contingent Liabilities. There are no suretyship agreements, guarantees or other contingent liabilities of the Borrower exceeding \$500,000 in the aggregate (as of the date hereof and, for the purposes of Section 9.02 hereof, as of the date of delivery to the Bank of each update to Schedule 5.08 as contemplated hereby) that are not disclosed by the Financial Statements mentioned in Section 5.05 or by Schedule 5.08 attached hereto (as updated from time to time).

Section 5.09 Taxes. The Borrower has filed or caused to be filed all Federal, state, and local tax returns required by Law to have been filed, has paid or caused to be paid all Federal, state, and local taxes, assessments and other governmental charges that are due and payable (unless the same are being contested in good faith), and has reserved funds or made adequate provision for the payment of all Federal, state and local taxes, assessments and other governmental charges accrued but not yet due and payable (or being contested in good faith). The Borrower has no knowledge of any material deficiency or assessment in connection with any Federal, state, or local taxes, assessments or governmental charges not provided for on its books in accordance with GAAP.

Section 5.10. Encumbrances. The property and assets of the Borrower are not subject to any lien, encumbrance or security interest that has arisen other than in the normal course of business,

except for the liens of the Indenture, liens disclosed by Schedule 5.10 attached hereto and liens permitted in Section 6.05 hereof.

Section 5.11. Consents. No authorization, consent, approval, license, exemption by or filing or registration with any Official Body is or will be necessary to the valid execution, delivery or performance by Borrower of this

Agreement, the Notes, or the other Loan Documents except those that have been obtained prior to the date hereof.

Section 5.12. ERISA. A copy of the most recent Annual Report (5500 Series Form) including all attachments thereto as filed with the Internal Revenue Service for each Plan has been provided to the Agent and fairly presents the funding status of each Plan. There has been no material deterioration in any Plan's funding status since the date of such Annual Report. The Borrower has provided the Agent with a list of all Plans and Multiemployer Plans and, at the request of the Agent, all available information with respect to its or any Controlled Group Member's direct, indirect, or potential withdrawal liability to any Multiemployer Plan. Except as specifically disclosed to the Agent, Borrower has no material liability for, and none of Borrower's assets are encumbered in connection with, (A) the failure to satisfy the minimum funding requirements under ERISA or the Code with respect to a Plan (including, without limitation, joint and several liability with a Controlled Group Member for the minimum funding requirement and the excise tax for failure to meet such requirement, any lien for contributions with respect to a Plan which are due and unpaid by the Borrower or a Controlled Group Member, and any security posted by the Borrower to obtain a waiver of the minimum funding requirement), (B) any amendment to a Plan for which security is required to be provided to the Plan pursuant to Section 307 of ERISA, (C) any PBGC premiums with respect to a Plan which are due and unpaid by the Borrower or a Controlled Group Member, or (D) the termination of a Plan or withdrawal by the Borrower or a Controlled Group Member from any Multiemployer Plan. The PBGC premiums and contributions required to meet the minimum funding requirements of ERISA and the Code for all Plans for the last five plan years prior to the date hereof have not exceeded \$2,500,000 on an annual basis. The amount by which the accumulated benefit obligation exceeds the fair value of the Plan assets, as certified to by the Plan's actuary, for any Plan for the last plan year ended prior to the date hereof for which an actuarial report containing such a calculation has been completed did not exceed \$10,000 and for all Plans for such plan year did not exceed \$20,000. The Borrower agrees not to terminate any Plan without the prior written consent of the Majority Banks.

Section 5.13. Environmental Matters.

Except as may be disclosed on Schedule 5.13, to the best of the Borrower's knowledge:

(a) The Borrower has performed all of its obligations under, has obtained all necessary approvals, permits, authorizations and other consents required by, and is not in material violation of, any Environmental Laws.

(b) The Borrower has not received any notice, citation, summons, directive, order or other communication, written or oral, from, and the Borrower has no knowledge of the filing or giving of any such notice, citation, summons, directive, order or other communication by, any governmental or quasi-governmental authority or agency or any other Person concerning any material non-compliance with any Environmental Law, including those that relate to the presence, generation, treatment, storage, transportation, transfer, disposal, release or other handling of any Hazardous Materials within, on, from, related to, or affecting any real property owned or occupied by the Borrower.

(c) The Borrower has not disposed of any Hazardous Material on any of the Borrower's property in violation of any Environmental Laws.

(d) There are no Hazardous Materials within, on or under any real property owned or occupied by the Borrower that would be material in the sense of non-compliance with any Environmental Laws or liability of the Borrower.

Section 5.14. Margin Securities. The assets of the Borrower do not include any 'margin securities' within the meaning of Regulations G or U of the Board of Governors of the Federal

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Reserve System (12 C.F.R. 207, 221), and the Borrower does not have any present intention of acquiring any margin security.

Section 5.15. No Untrue Statements. To the best of the Borrower's knowledge, the Loan Documents nor any other document, certificate or statement furnished or to be furnished by the Borrower or by any other party to the Banks in connection herewith contains, or at the time of delivery will contain, any untrue statement of a material fact or omits or will omit to state a material

fact necessary in order to make the statements contained herein and therein not misleading.

ARTICLE VI
COVENANTS OF BORROWER

The Borrower agrees as follows so long as the Revolving Credit Notes shall remain unpaid or the Banks shall have any remaining obligation under the Revolving Credit Commitments, unless the Banks shall otherwise consent in writing:

Section 6.01. Use of Proceeds. None of the proceeds of any Revolving Credit Loan will be used in violation of any applicable law or regulation (including without limitation, Section [7] of the Securities Exchange Act of 1934, as amended, or Regulations G, T, U or X of the Board of Governors of the Federal Reserve System). The Borrower shall use the proceeds of all Revolving Credit Loans hereunder only for general business purposes, including without limitation, capital expenditures, acquisitions, and other general corporate purposes.

Section 6.02. Financial Information.

(a) The Borrower will furnish to each Bank (i) within 45 days after the end of each of the first three fiscal quarters of each fiscal year a Consolidated balance sheet of the Borrower and Subsidiaries as of the end of each such fiscal quarter and statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 90 days after the end of each fiscal year a Consolidated balance sheet of the Borrower and 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 consistently applied. Annual statements will be certified by KPMG Peat Marwick, or other independent public accountants reasonably acceptable to the Agent, and all other data will be certified by a financial officer of the Borrower. Each quarterly and annual financial statement will be accompanied by a financial covenant checklist and a certificate of the chief financial officer of the Borrower in the form of Schedule 6.02(a) (i) setting forth as at the end of such quarterly period or fiscal year, as the case may be, the calculations establishing whether or not the Borrower was in compliance with the covenants contained in Section 6.15 and 6.18 hereof, and (ii) stating that no default occurred or is continuing since the date hereof or since the date the last such certificate was delivered pursuant to this Section 6.02 whichever date is later or, if such an event has occurred, disclosing each such event and its nature, when it occurred, whether it is continuing, and the remedial steps being taken by the Borrower with respect to such event.

(b) The Borrower shall cause to be delivered to each Bank (i) within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year a Consolidated balance sheet of Philadelphia Suburban Corporation as of the end of each such fiscal quarter and Consolidated statements of income for the period from the beginning of such fiscal year to the end of such fiscal quarter, and (ii) within 90 days after the end of each fiscal year a Consolidated balance sheet of Philadelphia Suburban Corporation as of the end of each fiscal year and Consolidated statements of income, Consolidated statements of retained earnings and cash flow for such fiscal year. All financial statements will be prepared in accordance with GAAP consistently applied. Annual statements will be certified by KPMG Peat Marwick, or other independent public accountants reasonably acceptable to the Agent.

(c) The Borrower agrees to furnish to each Bank on or prior to February 15 of each fiscal year, a budgeted balance sheet, income statement and statement of cash flow for the current fiscal year.

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(d) The Borrower agrees to cause Philadelphia Suburban Corporation to furnish to each Bank on or prior to February 15 of each fiscal year, a budget for the current fiscal year.

(e) The Borrower agrees to furnish and agrees to cause Philadelphia Suburban Corporation to furnish to each Bank within ten days of the filing thereof, copies of all filings made with the Security and Exchange Commission, including, without limitation, copies of all proxy statements, 10-K's, 10-Q's, and 8-K's certified by the chief financial officers of the Borrower and Philadelphia Suburban Corporation.

(f) If the Borrower fails to furnish the Banks with any of the financial information and certificates with the time limits set forth in this Section 6.02, the Banks shall promptly notify the Borrower, and the Borrower shall provide the information within ten (10) days after it receives the Banks' notice.

Section 6.03. Insurance. The Borrower will maintain insurance with responsible insurance carriers against fire (with extended coverage), liability and other hazards and risks in amounts at least equal to those set forth in Schedule 6.03 attached hereto and made a part hereof and, upon request of the Agent, furnish evidence of such insurance.

Section 6.04. Taxes. The Borrower will 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 6.05. Encumbrances. The Borrower will not create, incur, assume or suffer to exist any mortgage, pledge, lien or other encumbrance of any kind upon, or any security interest in, any of its property or assets, whether now owned or hereafter acquired, except (A) the lien of the Indenture, (B) liens for taxes, assessments and other governmental charges not yet due and payable and liens for such claims being contested in good faith and by appropriate proceedings, (C) liens in connection with workers' compensation, unemployment insurance or other social security obligations, (D) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), statutory obligations, surety or appeal bonds, and other obligations of like nature arising in the ordinary course of business, (E) mechanic's, workman's, materialman's, landlord's, carrier's or other similar liens arising in the ordinary course of business with respect to obligations that are not due or that are being contested in good faith, (F) the encumbrances mentioned in Section 5.10 hereof, (G) purchase money encumbrances on newly-acquired real or personal property, provided that such lien attaches to such property concurrently with or within 90 days after the acquisition thereof, (H) liens existing on properties prior to the time they are acquired by the Borrower, (I) liens represented by interests in property created under leases by the Borrower as lessee, (J) any liens in connection with the issuance of industrial revenue bonds or pollution control bonds, as such liens are permitted under the Indenture and (K) liens of record as of the date hereof in any jurisdiction.

Section 6.06. Covenants of the Indenture. The Borrower will comply at all times with the covenants contained in the Supplemental Indenture, as such Supplemental Indenture supplements the Indenture, without regard to any amendment of or supplement to the Indenture occurring after April 1, 1993.

Section 6.07. Corporate Existences; Compliance with Laws. The Borrower shall do all things necessary to maintain, preserve and keep in full force and effect in each jurisdiction in which it conducts business the business existence, licenses, permits, rights, patents, tradenames and franchises of the Borrower. The Borrower will comply, in all material respects, with all Laws and regulations applicable to the operation of its business, noncompliance with which would present a reasonable likelihood of a material adverse effect on the Borrower or its property or operations, and except as contested in good faith.

Section 6.08. Material Litigation. The Borrower will promptly notify the Banks of the institution of any Material Litigation against the Borrower, which the Borrower has not reported to its insurance carriers, or, if so reported, with respect to which the Borrower's insurance carriers have denied coverage or have reserved rights as to coverage and will promptly advise the Bank of

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significant developments of record in any Material Litigation previously reported to the Bank except that no notification is required with respect to any Material Litigation which is being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on the appropriate books in accordance with GAAP.

Section 6.09. Maintenance of Property. The Borrower will maintain, and will cause each Subsidiary to maintain, all of its property in good condition and repair, ordinary wear and tear excepted.

Section 6.10. Inspection by Bank. The Borrower will permit representatives of the Agent and the Banks to inspect its property and its books and records,

and those of each Subsidiary, and to make extracts therefrom at all reasonable times. The Agent and the Banks each agree to keep confidential all information obtained from the Borrower pursuant to this Section which is nonpublic and confidential or proprietary in nature (including any information the Borrower specifically designates as confidential), except as provided below and to use such information only in connection with their respective capacities under this Agreement and for the purposes contemplated hereby. The Agent and the Banks shall be permitted to disclose such information (i) to outside legal counsel, accountants and other professional advisors who need to know such information in connection with the administration and enforcement of this Agreement, subject to agreement of such persons to maintain the confidentiality, (ii) assignees and participants as contemplated by Section 11.08, (iii) to the extent requested by any bank regulatory authority or, with notice to the Borrower, as otherwise required by applicable Law or by any subpoena or similar legal process, or in connection with any investigation or proceeding arising out of the transactions contemplated by this Agreement, (iv) if it becomes publicly available other than as a result of a breach of this Agreement or becomes available from a source not subject to confidentiality restrictions, or (v) the Borrower shall have consented to such disclosure.

Section 6.11. Notice of Events of Default. In the event that any officer of the Borrower becomes aware of any event which constitutes an Event of Default hereunder or would constitute such an Event of Default with notice or passage of time or both, the Borrower shall promptly provide the Banks with a statement by the chief financial officer of the Borrower describing such event and the remedial steps being taken by the Borrower.

Section 6.12. Compliance with ERISA. Promptly after the Borrower, any Controlled Group Member, or any administrator of a Plan:

(a) receives the notification referred to in subsections (a), (d), or (g) of Section 7.07 hereof,

(b) has knowledge of (i) the occurrence of a Reportable Event with respect to a Plan, and within 7 days thereafter if the Reportable Event is a failure to meet the minimum funding requirement with respect to a Plan, including failure to pay any contribution when due, and the total unpaid balance of contributions due to such Plan exceeds \$1,000,000; (ii) any event which has occurred or any action which has been taken to amend or terminate a Plan as referred to in subsections (b) and (f) of Section 7.07 hereof; (iii) any event which has occurred or any action which has been taken which would constitute a complete withdrawal, partial withdrawal, or result in secondary liability for withdrawal liability payments with respect to a Multiemployer Plan as referred to in subsection (g) of Section 7.07 hereof; (iv) any action which has been taken in furtherance of, any agreement which has been entered into for, or any petition which has been filed with a United States district court for, the appointment of a trustee for a Plan as referred to in subsection (c) of Section 7.07 hereof; (v) any action to amend a Plan which requires security to be provided to the Plan pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA or (vi) any failure to pay the PBGC premium with respect to a Plan within thirty days of when due, or

(c) files a notice of intent to terminate a Plan with the Internal Revenue Service or the PBGC; or files with the Internal Revenue Service a request pursuant to Section 412(d) or 412(e) of the Code for a variance from the minimum funding standard or an extension of the period for amortizing unfunded liabilities, respectively, for a Plan; or files a return with the Internal Revenue

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Service with respect to the tax imposed under Section 4971(a) of the Code for failure to meet the minimum funding standards established under Section 412 of the Code for a Plan,

the Borrower will furnish to the Agent a copy of any notice received, request or petition filed, and agreement entered into; the most recent Annual Report (Form 5500 Series) and attachments thereto for the Plan; the most recent actuarial report for the Plan; any notice, return, or materials required to be filed with the Internal Revenue Service, the PBGC or Plan participants and beneficiaries in connection with the event, action, or filing; and a written statement of the President, Treasurer, or chief financial officer of the Borrower describing the event or the action taken and the reasons therefor.

Section 6.13. Indebtedness. The Borrower will pay or cause to be paid when due (or within applicable grace periods) all Credit Obligations of the Borrower and notify the Agent promptly if any default or event of default occurs and continues unremedied under any indenture, mortgage, loan agreement, or evidence of Credit Obligations to which the Borrower or any Subsidiary is a party or on which any of them or any of their properties is bound. The Borrower shall not, and shall not permit any Subsidiary to, at any time create, incur, assume or suffer to exist any Bank Indebtedness, except the following: (A) Bank Indebtedness under this Agreement or the Notes; (B) Bank Indebtedness existing on the date hereof and listed in Schedule 6.13 attached hereto; and (C) Bank Indebtedness secured by liens or encumbrances permitted under Section 6.05.

Section 6.14. Judgment, Attachment. The Borrower will promptly notify the Banks if any of the Borrower's or Subsidiaries' assets become subject to any final judgment, attachment or levy in excess of \$500,000 which has not been discharged within thirty (30) days from the date such judgment has been entered.

Section 6.15. Minimum Equity to Capital Ratio. The Borrower shall at all times maintain a Minimum Equity to Capital Ratio of at least thirty-eight percent (38%). Such Ratio shall be tested on a quarterly basis. For purposes hereof 'Minimum Equity to Capital Ratio' shall be defined as the sum of (a) Preferred Stock, Common Stock, Capital Surplus and Retained Earnings (hereafter referred to as 'Proprietary Equity'); divided by the sum of (b) Short Term Funded Debt, Long Term Funded Debt and Proprietary Equity, as determined in accordance with GAAP.

Section 6.16. Notice of Certain Contingent Liabilities. The Borrower shall, prior to the date of any disbursement to the Borrower hereunder (other than the first disbursement), provide written notice to the Banks of any suretyship agreements, guarantees or other contingent liabilities of the Borrower exceeding \$250,000 in a single instance which are not disclosed by the Financial Statements mentioned in Section 5.05 hereof or delivered pursuant to Section 6.02 hereof or disclosed by Schedule 5.08 hereto (as updated prior to such disbursement). Such notice from the Borrower to the Banks shall be considered to update said Schedule 5.08. In addition to the foregoing, the Borrower shall furnish to the Banks, within 90 days after the end of each fiscal year of the Borrower, an update to Schedule 5.08 hereto disclosing suretyship agreements, guarantees or other contingent liabilities of the Borrower or its Subsidiaries exceeding \$500,000 in the aggregate as of the end of such fiscal year that are not disclosed by the financial statements mentioned in Section 5.05 hereof or delivered pursuant to Section 6.02 hereof.

Section 6.17. Investments. The Borrower shall not, and shall not permit any Subsidiary to, at any time purchase, acquire or own any stock, bonds, notes or securities of, or any partnership interest (whether general or limited) in, or any other interest in, or make any capital contribution to, any other person or entity, or purchase, acquire or own (other than in the ordinary course of business) any asset, tangible or intangible, or agree, become or remain liable to do any of the foregoing, except:

(a) assets existing on the date hereof;

(b) the capital stock of a Subsidiary owned on the date hereof;

(c) other investments made and assets acquired after the date hereof in an amount not exceeding \$35,000,000 at any one time, provided, that, no Event of Default (and no event which with the giving of notice or passage of time or both would become an Event of Default) has

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occurred at the time of the acquisition unless the Borrower has obtained the Banks written consent which consent shall not be unreasonably withheld.

Section 6.18. Minimum Interest Coverage Ratio. The Borrower shall not permit the Minimum Interest Coverage Ratio to be less than 1.80 to 1.00. For purposes herein, 'Minimum Interest Coverage Ratio' shall mean the ratio of (a) Net Income (before preferred dividends) plus Gross Interest Expense (before reduction for Allowance for Funds Used During Construction) plus Income Taxes to (b) Gross Interest Expense, all as determined in accordance with GAAP for any four consecutive quarterly fiscal periods of the Borrower (treated as one accounting period). Such Minimum Interest Coverage Ratio shall be tested on a quarterly basis.

Section 6.19. Compliance with Environmental Laws. The Borrower shall

comply, in all material respects, with the Environmental Laws and the Borrower shall not use any property which it owns or occupies to generate, treat, store, transport, transfer, dispose of, release or otherwise handle any Hazardous Material, except in compliance with all Environmental Laws.

Section 6.20. Fundamental Corporate Changes.

(a) The Borrower shall not enter into or effect any merger, consolidation, share exchange, division, conversion, reclassification, recapitalization, reorganization or other transaction of like effect, or dissolve; except that if after giving effect thereto no Event of Default would exist, this Section 6.20 shall not apply to any merger or consolidation of the Borrower with any one or more Persons, provided that the Borrower shall be the surviving and continuing Person and provided further that the Banks shall have received thirty (30) days prior written notice thereof;

(b) Sell, transfer, lease or otherwise dispose of all or (except in the ordinary course of business) any material part of its assets or common stock.

Section 6.21. Change in Business. The Borrower shall not discontinue any substantial part, or change the nature of, the business of the Borrower, or enter into any new business materially unrelated to the present business conducted by the Borrower.

Section 6.22 Loans, Advances, Etc. The Borrower shall not make any loans, advances, or any extensions of credit directly or indirectly, or investments to Philadelphia Suburban Corporation, any Affiliate or Person, in an amount not to exceed \$1,000,000 without first obtaining the prior written approval of the Majority Banks, other than Subsidiaries of the Borrower; provided that such Subsidiary or Subsidiaries joins in this Agreement as a borrower jointly and severally liable hereunder.

ARTICLE VII DEFAULT

Each of the following is an Event of Default:

Section 7.01. Payment of Principal. If the Borrower shall fail to pay any principal of any Revolving Credit Loans as and when due (whether at maturity, by reason of acceleration or notice of prepayment or otherwise).

Section 7.02. Payment of other Obligations. If Borrower shall fail to pay Interest, any Commitment Fee or any other amount due hereunder as and when due and such failure shall have continued for a period of five (5) Business Days after receipt by the Borrower of either oral or written notice of such default from the Agent.

Section 7.03. Performance Obligations. f the Borrower defaults in the observance or performance of:

(i) any term, covenant, condition or agreement contained in Sections 6.01, 6.02, 6.05, 6.07 (insofar as such Section relates to the preservation of the business existence of the Borrower), 6.11, 6.13, 6.15, 6.16, 6.17, 6.18, 6.20 and 6.21; or

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(ii) any term, covenant, condition or agreement or any other obligation to be performed under the Revolving Credit Notes or this Agreement, including, without limitation, the Borrower's covenants under Article VI hereof (other than a term, covenant, condition or agreement a default in the performance or observance of which is specifically dealt with elsewhere in this Article), and such failure continues for thirty (30) days after receipt of written notice thereof from the Agent.

Section 7.04. Representations and Warranties. If any financial statement or any representation or warranty of the Borrower in this Agreement, any other Loan Documents, or in any document, instrument or statement delivered to the Agent and the Banks in connection with this Agreement shall at the time made be false or incorrect, in any material respect.

Section 7.05. Bankruptcy and Insolvency. If any proceeding under the Bankruptcy Code or any Law of the United States or of any state relating to insolvency, receivership, reorganization or debt adjustment is instituted by the Borrower or any Subsidiary as debtor or if such a proceeding is instituted

against the Borrower or any Subsidiary as debtor and is consented to by the respondent or remains undismissed for thirty (30) days, or if the Borrower or any Subsidiary is adjudicated a bankruptcy, or a trustee or receiver is appointed for any substantial part of its property, or if the Borrower or any Subsidiary makes an assignment for the benefit of creditors or becomes unable generally to pay, or admits in writing its inability to pay, its debts as they mature.

Section 7.06. Failure to Pay Any Credit Obligation. If the Borrower shall fail to pay when due any Credit Obligation, and such failure shall continue beyond any applicable grace period, or the Borrower shall suffer to exist any default or event of default in the performance or observance, subject to any applicable grace period, of any agreement, term, condition or covenant with respect to any other Credit Obligation, and in either case such default results in the borrowings thereunder becoming due and payable prior to the date on which they would otherwise be due and payable; provided, however, that if such failure or default shall be cured and waived in writing by the holders of such Credit Obligations or by the holders of a specified percentage thereof entitled to so waive, and the acceleration of the maturity of such Credit Obligations shall be rescinded, then the default hereunder by reason thereof shall be deemed to have been cured and waived.

Section 7.07. Certain Employee Plan Liability. One or more of the events set forth in subsections (a) through (i) below shall have occurred and the liabilities resulting therefrom, individually or in the aggregate, would cause a material decline in the business operations or financial condition of the Borrower:

(a) The PBGC notifies a Plan pursuant to Section 4042 of ERISA by service of a complaint, threat of filing a law suit, or otherwise of its determination that an event described in Section 4042(a) of ERISA has occurred, a Plan should be terminated, or a trustee should be appointed for a Plan; or

(b) Any action is taken to terminate a Plan pursuant to its provisions or the plan administrator files with the PBGC a notice of intent to terminate a Plan in accordance with Section 4041 of ERISA; or

(c) Any action is taken by a plan administrator to have a trustee appointed for a Plan pursuant to Section 4042 of ERISA; or

(d) A return is filed with the Internal Revenue Service, or a Plan is notified by the Secretary of the Treasury that a notice of deficiency under Section 6212 of the Code has been mailed, with respect to the tax imposed under Section 4971(a) of the Code for failure to meet the minimum funding standards established under Section 412 of the Code; or

(e) A Reportable Event occurs with respect to a Plan; or

(f) Any action is taken to amend a Plan to become an employee benefit plan described in Section 4021(b)(1) of ERISA, causing a Plan termination under Section 4041(e) of ERISA; or

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(g) The Borrower or any Controlled Group Member receives a notice of liability or demand for payment on account of complete withdrawal under Section 4203 of ERISA, partial withdrawal under Section 4205 of ERISA or on account of becoming secondarily liable for withdrawal liability payments under Section 4204 of ERISA (sale of assets);

(h) The assets of the Borrower or any Controlled Group Member are encumbered as a result of security provided to a Plan pursuant to Section 412 of the Code or Section 306 of ERISA in connection with a request for a minimum funding waiver or extension of the amortization period, or pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA as a result of a Plan amendment; or

(i) The Borrower or a Controlled Group Member fails to pay the PBGC premium with respect to a Plan when due and it remains unpaid for more than 30 days thereafter.

Section 7.08. Judgments. A final judgment or judgments is entered, or an order or orders of any judicial authority or governmental entity is issued against the Borrower (such judgment(s) and order(s) hereinafter collectively

referred to as 'Judgment') (i) for payment of money, which Judgment, in the aggregate, exceeds Five Hundred Thousand Dollars (\$500,000.00) outstanding at any one time and which judgment shall continue undischarged for thirty (30) days; or (ii) for injunctive or declaratory relief which would have a material adverse effect on the ability of the Borrower to conduct its business, and such Judgment is not discharged or execution thereon or enforcement thereof stayed pending appeal, within thirty (30) days after entry or issuance thereof, or, in the event of such a stay, such Judgment is not discharged within thirty (30) days after such stay expires.

Section 7.09. Agreements Invalid. The validity, binding nature of, or enforceability of any material term or provision of any of the Loan Documents is disputed by, on behalf of, or in the right or name of the Borrower or any material term or provision of any such Loan Document is found or declared to be invalid, avoidable, or non-enforceable by any court of competent jurisdiction.

ARTICLE VIII
REMEDIES OF THE BANK

Section 8.01. Termination, of Commitment; Acceleration.

(a) If an Event of Default specified under Sections 7.01 through 7.04 and Sections 7.06 through 7.09 hereof shall occur and be continuing, the Banks shall be under no further obligation to make Revolving Credit Loans hereunder and the Agent may, and upon the request of the Majority Banks, shall by written notice to the Borrower, declare the unpaid principal amount of the Revolving Credit Notes then outstanding and all interest accrued thereon, any unpaid fees and all other indebtedness 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; and

(b) If an Event of Default specified under Section 7.05 hereof shall occur the Banks shall be under no further obligations to make Revolving Credit Loans hereunder and the unpaid principal amount of the Revolving Credit Notes then outstanding and all interest accrued thereon, any unpaid fees and all other indebtedness of the Borrower to the Banks hereunder and thereunder shall automatically be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived; and

(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 10.13 hereof and any branch, subsidiary or affiliate of such Bank or participant anywhere in the world 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 Revolving Credit Loans and all other obligations

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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) 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 security, right or remedy available to any Bank or the Agent; and

(d) If an Event of Default shall occur and be continuing, and whether or not the Agent shall have accelerated the maturity of Revolving Credit Loans of the Borrower pursuant to any of the foregoing provisions of this Section 8.01, the Agent or any Bank, if owed any amount with respect to the Revolving Credit Notes, may proceed to protect and enforce its rights by suit in equity, action at law and/or other appropriate proceeding, whether for the specific performance of any covenants or agreement contained in this Agreement or the Revolving Credit Notes; and

(e) From and after the date on which the Agent has taken any action pursuant to this Section 8.01 and until all obligations of the Borrower have been paid in full, any and all proceeds received by the Agent, shall be applied as follows:

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

(ii) second, to the repayment of all Indebtedness then due and unpaid of the Borrower to the Agent and the Banks incurred under this Agreement or any of the Loan Documents, in the following order of priority: first: for the payment of all accrued interest, second: for the payment of all outstanding principal; and third: for the payment of all other fees, expenses and other similar expenditures.

ARTICLE IX CONDITIONS OF LENDING

Section 9.01. Conditions Precedent to the First Disbursement. The obligation of the Banks to make the first disbursement hereunder is subject to receipt by the Agent of the following, all of which shall be in form and substance satisfactory to the Agent and the Banks:

(a) All Loan Documents duly executed and delivered by the Borrower and payment of any applicable fees.

(b) A certificate in form and substance satisfactory to the Agent and the Banks, dated the Closing Date and signed on behalf of the Borrower by the Secretary or an Assistant Secretary of the Borrower, certifying as to (i) true copies of the articles of incorporation and bylaws of the Borrower as in effect on such date, (ii) true copies of all corporate action taken by the Borrower relative to this Agreement, the Notes, and the other Loan Documents, including but not limited to that described in Section 5.02 hereof, and (iii) the names, true signatures and incumbency of the officer or officers of the Borrower authorized to execute and deliver this Agreement, the Notes, and the other Loan Documents. The Agent and the Banks may conclusively rely on such certificate unless and until a later certificate revising the prior certificate has been furnished to the Agent and the Banks.

(c) A favorable opinion of counsel for the Borrower as to the due execution, delivery, validity and enforceability of this Agreement, the Notes, and the other Loan Documents and such other matters as the Agent and the Banks may reasonably request.

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(d) A copy of the Supplemental Indenture which is certified by the Borrower to be a true, correct and complete copy.

(e) A copy of each and every authorization, permit, consent, and approval of and other action by, and notice to and filing with, every governmental authority and regulatory body 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, including without limitation, proof of registration by the Pennsylvania Public Utility Commission of a securities certificate relating to the transactions contemplated by this Agreement and the Notes.

Section 9.02. Conditions Precedent to All Disbursements. The obligation of the Banks to make any disbursement hereunder (including the first disbursement) is subject to the further conditions precedent that:

(a) The representations and warranties contained in Article V hereof shall be correct and accurate on and as of the date of any such disbursement as though made on and as of that date except to the extent that any such representation or warranty expressly relates to facts or circumstances prevailing on a fixed date (including the date hereof).

(b) No Event of Default shall have occurred and be continuing or will result from the making of such disbursement, and no event shall have occurred and be continuing, or condition exist, or result from the making of such disbursement, which with notice or lapse of time or both would,

if unremedied, be an Event of Default.

ARTICLE X
THE AGENT

Section 10.01. Appointment. Each Bank hereby irrevocably designates, appoints and authorizes Mellon Bank, N.A. to act as Agent for such Bank under this Agreement and to execute and deliver or accept on behalf of each of the Banks the other Loan Documents. Each Bank hereby irrevocably authorizes, and each holder of any Revolving Credit Note by the acceptance of a Revolving Credit Note shall be deemed irrevocably to authorize, the Agent to take such action on its behalf under the provisions of this Agreement and the other Loan Documents and any other instruments and agreements referred to herein, and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Agent by the terms hereof and thereof, together with such powers as are reasonably incidental thereto or the accomplishment thereof. Mellon Bank, N.A. agrees to act as the Agent on behalf of the Banks to the extent provided in this Agreement.

Section 10.02. Delegation of Duties. The Agent may perform any of its duties hereunder by or through agents or employees (provided such delegation does not constitute a relinquishment of its duties as Agent) and, subject to Sections 10.05 and 10.06 hereof, shall be entitled to engage and pay for the advice or services of any attorneys, accountants or other experts selected by it concerning all matters pertaining to its duties hereunder and to rely upon any advice so obtained.

Section 10.03. Nature of Duties; Independent Credit Investigation. The Agent shall have no duties or responsibilities except those expressly set forth in this Agreement and no implied covenants, functions, responsibilities, duties, obligations, or liabilities shall be read into this Agreement or otherwise exist. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement a fiduciary or trust relationship in respect of any Bank; and nothing in this Agreement, expressed or implied, is intended to or shall be so construed as to impose upon the Agent any obligations in respect of this Agreement except as expressly set forth herein. Each Bank expressly acknowledges (i) that the Agent has not made any representations or warranties to it and that no act by the Agent hereafter 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; (ii) that it has made and will continue to make, without reliance upon the Agent, its own independent investigation and appraisal of the financial condition and affair and the creditworthiness of the Borrower in connection

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with this Agreement and the making and continuance of the Revolving Credit Loans hereunder; and (iii) except as expressly provided herein, that the Agent shall have no duty or responsibility, either initially or on a continuing basis, to provide any Bank with any credit or other information with respect thereto, whether coming into its possession before the making of any Revolving Credit Loan or at any time or times thereafter.

Section 10.04. Actions in Discretion of Agent; Instructions from the Banks. The Agent agrees, upon the written request of the Majority Banks, to take or refrain from taking any action of the type specified as being within the Agent's rights, powers or discretion herein, provided that the Agent shall not be required to take any action which exposes the Agent to personal liability or which is contrary to this Agreement or any other Loan Document or applicable Law. In the absence of a request by the Majority Banks, the Agent shall have authority, in its sole discretion, to take or not to take any such action, unless this Agreement specifically requires the consent of the Majority Banks or all of the Banks. Any act or failure to act pursuant to such instructions or discretion shall be binding on the Banks, subject to Section 10.06 hereof. Subject to the provisions of Section 10.06, no Bank shall have any right of action whatsoever against the Agent as a result of the Agent acting or failing to act hereunder in accordance with the instructions of the Majority Banks, or in the absence of such instructions, in the absolute discretion of the Agent.

Section 10.05. Reimbursement and Indemnification of Agent by the Borrower. The Borrower agrees to pay to or reimburse the Agent and save the Agent harmless against (a) liability for the payment of all reasonable out-of-pocket costs, expenses and disbursements, including but not limited to fees and expenses of counsel, appraisers and environmental consultants, incurred by the Agent (i) in connection with the development, negotiation, preparation,

printing, execution, administration, syndication, interpretation and performance of this Agreement, and the Loan Documents subject to written agreements with the Agent, (ii) relating to any requested amendments, waivers or consents pursuant to the provisions hereof, (iii) in connection with the enforcement of this Agreement or any other Loan Document or collection of amounts due hereunder or thereunder or the proof and allowability of any claim arising under this Agreement or any other Loan Document, whether in bankruptcy or receivership proceedings or otherwise, and (iv) in any workout, restructuring or in connection with the protection, preservation, exercise or enforcement of any of the terms hereof or of any rights hereunder or under any other Loan Document or in connection with any foreclosure, collection or bankruptcy proceedings, and (b) all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that the Borrower shall not be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements if the same results from the Agent's gross negligence or willful misconduct, or if Borrower was not given notice of the subject claim and the opportunity to participate in the defense thereof, at their expense, or if the same results from a compromise or settlement agreement entered into without the consent of the Borrower. In addition, the Borrower agrees to reimburse and pay all reasonable out-of-pocket expenses of the Agent's regular employees and agents engaged periodically to perform audits of the Borrower's books, records and business properties.

Section 10.06. Exculpatory Provisions. Neither the Agent nor any of its directors, officers, employees, agents, attorneys or affiliates shall (a) be liable to any Bank for any act or failure to act by it or them hereunder, or in connection herewith including without limitation pursuant to any Loan Document, unless caused by its or their own gross negligence or willful misconduct, (b) be responsible in any manner to any of the Banks for the effectiveness, enforceability, genuineness, validity or the due execution of this Agreement or any other Loan Documents or for any recital, representation, warranty, document, certificate, report or statement herein or made or furnished under or in connection with this Agreement or any other Loan Documents or (c) be under any obligation to any of the Banks to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions hereof or thereof on the part of Borrower, or the financial condition of the Borrower, or the existence

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or possible existence of any Event of Default. Neither the Agent nor any Bank nor any of their respective directors, officers, employees, agents, attorneys or affiliates shall be liable to the Borrower for consequential damages resulting from any breach of contract, tort or other wrong in connection with the negotiation, documentation, administration or collection of the Revolving Credit Loans or any of the Loan Documents.

Section 10.07. Reimbursement and Indemnification of Agent by Banks. Each Bank agrees to reimburse and indemnify the Agent (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so) in proportion to its Ratable Share from and against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any other Loan Documents or any action taken or omitted by the Agent hereunder or thereunder, provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs expenses or disbursements (a) if the same results from the Agent's gross negligence or willful misconduct, or (b) if such Bank was not given notice of the subject claim and the opportunity to participate in the defense thereof, at its expense, or (c) if the same results from a compromise and settlement agreement entered into without the consent of such Bank. In addition, each Bank agrees promptly upon demand to reimburse the Agent (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so) in proportion to its Ratable Share for all amounts due and payable by the Borrower to the Agent in connection with the Agent's periodic audit of each Borrower's books, records and business properties.

Section 10.08. Reliance by Agent. The Agent shall be entitled to rely upon any writing, telegram, telex or teletype message, resolution, notice, consent,

certificate, letter, cablegram, statement, order or other document or conversation by telephone or otherwise believed by it to be genuine and correct and to have been signed, sent or made by the proper person or persons, and upon the advice and opinions of counsel and other professional advisers selected by the Agent. The Agent shall be fully justified in failing or refusing to take any action hereunder unless it 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.

Section 10.09. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Event of Default unless it has actual knowledge thereof or the Agent has received written notice from a Bank or the Borrower referring to this Agreement, describing such Event of Default and stating that such notice is a 'notice of default.'

Section 10.10. Notices. The Agent shall send to each Bank a copy of all notices received from the Borrower pursuant to the provisions of this Agreement or the other Loan Documents promptly upon receipt thereof.

Section 10.11. Banks in Their Individual Capacities. With respect to its Revolving Credit Commitments and the Revolving Credit Loans made by it, the Agent shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not the Agent, and the term 'Banks' shall, unless the context otherwise indicates, include the Agent in its individual capacity. Mellon Bank, N.A. and its affiliates and each of the Banks and their respective affiliates may, without liability, except as prohibited herein, make Revolving Credit Loans to, accept deposits from, discount drafts for, act as trustee under indentures of, and generally engage in any kind of banking or trust business with, the Borrower and its affiliates, in the case of the Agent, as though it were not acting as Agent hereunder and in the case of each Bank as though such Bank were not a Bank hereunder.

Section 10.12. Holders of Revolving Credit Notes. The Agent may deem and treat any payee of any Revolving Credit Note as the owner thereof for all purposes hereof unless and until written notice of the assignment or transfer thereof shall have been filed with the Agent. Any request, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Revolving Credit Note shall be conclusive and binding on any subsequent holder,

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transferee or assignee of such Revolving Credit Note or of any Revolving Credit Note or Revolving Credit Notes issued in exchange therefor.

Section 10.13. Equalization of Banks. The Banks and the holders of any participations in any Revolving Credit Notes agree among themselves that, with respect to all amounts received by any Bank or any such holder for application on any obligation hereunder or under any Revolving Credit Note or under any other Loan Document or under any such participation, whether received by voluntary payment, by realization upon security, by the exercise of the right of set-off or banker's lien, by counterclaim or by any other non-pro rata source, equitable adjustment will be made in the manner stated in the following sentence so that, in effect, all such excess amounts will be shared ratably among the Banks and such holders in proportion to their interests in payments under the Revolving Credit Notes, except as otherwise provided in Sections 4.04 or 4.07 hereof. The Banks or any such holder receiving any such amount shall purchase for cash from each of the other Banks an interest in such Bank's Revolving Credit Loans in such amount as shall result in a ratable participation by the Banks and each such holder in the aggregate unpaid amount under the Revolving Credit Notes, provided that if all or any portion of such excess amount is thereafter recovered from the Bank or the holder making such purchase, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, together with interest or other amounts, if any, required by Law (including court order) to be paid by the Bank or the holder making such purchase.

Section 10.14. Successor Agent. The Agent may resign at any time as Agent by giving written notice to the Borrower and the Banks, not less than thirty (30) days prior to the effective date of such resignation. If the Agent shall resign under this Agreement, then either (a) the Majority Banks shall appoint from among the Banks a successor agent for the Banks within the thirty (30) day period following the Agent's notice to the Banks of its resignation, or (b) the Agent shall appoint, with the consent of the Borrower, such consent not to be unreasonably withheld, a successor agent who shall serve as Agent until such

time as the Majority Banks appoint, a successor agent. Upon its appointment pursuant to either clause (a) or (b) above, such successor agent shall succeed to the rights, powers and duties of the 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. After the resignation of any Agent hereunder, the provisions of this Article X shall inure to the benefit of such former Agent and such former Agent shall not by reason of such resignation be deemed to be released from liability for any actions taken or not taken by it while it was an Agent under this Agreement.

Section 10.15. Availability of Funds. Unless the Agent shall have been notified by a Bank prior to the date upon which a Loan is to be made that such Bank does not intend to make available to the Agent such Bank's portion of such Loan, the Agent may assume that such Bank has made or will make such proceeds available to the Agent on such date and the Agent may, in reliance upon such assumption (but shall not be obligated to), make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Agent by such Bank, the Agent shall be entitled to recover such amount on demand from such Bank (or, if such Bank fails to pay such amount forthwith upon such demand from the Borrower) together with interest thereon, in respect of each day during the period commencing on the date such amount was made available to the Borrower and ending on the date the Agent recovers such amount, at a rate per annum equal to the applicable interest rate in respect of the Loan.

Section 10.16. Calculations. In the absence of gross negligence or willful misconduct, the Agent shall not be liable for any error in computing the amount payable to any Bank whether in respect of the Loans, fees or any other amounts due to the Banks under this Agreement. In the event an error in computing any amount payable to any Bank is made, the Agent, the Borrower and each affected Bank shall, forthwith upon discovery of such error, make such adjustments as shall be required to correct such error, and any compensation thereof will be calculated at the Federal Funds Effective Rate.

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Section 10.17. Beneficiaries. The provisions of this Article X are for the benefit of the Agent and the Banks, and except as expressly provided herein, the Borrower shall not have any rights to rely on or enforce any of the provisions hereof. In performing its 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.

ARTICLE XI MISCELLANEOUS

Section 11.01. Modifications, Amendments or Waivers. With the written consent of the Majority Banks, the Agent, acting on behalf of all the Banks, and the Borrower may from time to time enter into written agreements amending or changing any provision of this Agreement or any other Loan Document or the rights of the Banks or the Borrower hereunder or thereunder, or may grant written waivers or consents to a departure from the due performance of the obligations of the Borrower hereunder or thereunder. Any such agreement, waiver or consent made with such written consent shall be effective to bind all the Banks; provided, that, without the written consent of all the Banks, no such agreement, waiver or consent may be made which will:

(a) Reduce the amount of the Commitment Fee or any other fees payable to any Bank hereunder, extend the Revolving Credit Commitment Termination Date, increase the Commitment amount with respect to any Bank, or amend Sections [4.10 (Pro Rata Treatment of Banks)], [10.06] (Exculpatory provisions) and [10.13] (Equalization of Banks) hereof;

(b) Whether or not any Revolving Credit Loans are outstanding, extend the time for payment of principal or interest of any Revolving Credit Loan, or reduce the principal amount of or the rate of interest borne by any Revolving Credit Loan, or otherwise affect the terms of payment of the principal of or interest of any Loan;

(c) Amend this Section 11.01, change the definition of Majority Banks or change any requirement providing for the Banks or the Majority Banks to authorize the taking of any action hereunder; or

(d) Except for sales of assets permitted herein, release any collateral or other security (if any), for the Borrower's obligations hereunder.

Section 11.02. No Waiver; Cumulative Remedies. No failure or delay on the part of the Agent or any Bank in exercising any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. The remedies herein provided are cumulative and not exclusive of any remedies provided by Law.

Section 11.03. Costs, Expenses and Attorneys' Fees. If the transactions contemplated by this Agreement and the other Loan Documents are not fully consummated due to the fault of the Borrower, the Borrower shall promptly pay (or reimburse, as the Agent may elect) all reasonable costs and expenses which the Agent has incurred or may hereafter incur in connection with the negotiation, preparation, reproduction, interpretation and enforcement of this Agreement and the other Loan Documents, the collection of all amounts due hereunder and thereunder, and any amendment, modification, consent or waiver which may be hereafter requested by the Borrower or otherwise required. Such costs and expenses shall include the reasonable fees and disbursements of counsel to the Agent, the costs of appraisal fees, searches of public records, costs of filing and recording documents with public offices, and similar costs and expenses incurred by the Agent. Upon the occurrence of an Event of Default, such costs shall also include the reasonable fees of any accountants, consultants or other professionals retained by the Agent and the Banks directly related hereto. The Borrower's reimbursement obligations under this Section shall survive any termination of this Agreement.

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Section 11.04. Governing Law. This Agreement and the Notes shall be governed in all respects by the law of the Commonwealth of Pennsylvania and for all purposes shall be construed in accordance with such law.

Section 11.05. Headings. Article and Section headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

Section 11.06. Exhibits. All exhibits attached hereto are hereby made a part hereof.

Section 11.07. Amendments and Waivers. The Banks and the Borrower may from time to time enter into agreements amending, modifying or supplementing this Agreement or the Notes or any other documents or instruments pursuant to or in connection herewith or changing the rights of the Banks or of the Borrower hereunder or thereunder, and the Banks may from time to time grant waivers or consents to a departure from the due performance of the obligations of the Borrower hereunder or thereunder. Any such agreement, waiver or consent must be in writing and shall be effective only to the extent specifically set forth in such writing. In the case of any such waiver or consent relating to any provision hereof, any Event of Default so waived or consented to shall be deemed to be cured and not continuing, but no such waiver or consent shall extend to any other or subsequent Event of Default or impair any right consequent thereto.

Section 11.08. Successors and Assigns; Participations. This Agreement shall be binding upon and inure to the benefit of the Banks, the Borrower and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights hereunder without the prior written consent of the Agent and Banks. Each Bank may, at its own cost, make assignments of or sell participations in all or any part of its Revolving Credit Commitment and the Loans made by it to one or more banks or other entities, subject to the consent of the Borrower and the Agent with respect to any assignees, such consent not to be unreasonably withheld, and provided that no assignment or participation shall be made in amounts less than \$5,000,000 and further provided that with respect to any assignment each assigning Bank agrees to pay to Agent a servicing fee of \$2,000 payment on or prior to the date of assignment. In the case of an assignment, upon receipt by the Agent of the Assignment and Assumption Agreement in the form set forth in Exhibit 11.08 hereof and the \$2,000 service fee, the assignee shall have, to the extent of such assignment (unless otherwise provided therein), the same rights, benefits and obligations as it would have if it had been a signatory Bank hereunder, the Commitments in Section 2.01 and Schedule 1.01(a) shall be adjusted accordingly, and upon surrender of any Note subject to such assignment, the Borrower shall execute and deliver a new Note to the assignee in an amount equal to the amount of the Revolving Credit Commitment

assumed by it and a new Revolving Credit Note to the assigning Bank in an amount equal to the Revolving Credit Commitment retained by it hereunder. In the case of a participation, the participant shall only have the rights specified in Section 8.01(C) (the participant's rights against such Bank in respect of such participation to be those set forth in the agreement executed by such Bank in favor of the participant relating to changes of the type referenced in clauses (A), (B), or (C) under Section 11.01 hereof), all of such Bank's obligations under this Agreement or any other Loan Document shall remain unchanged and all amounts payable by the Borrower hereunder or thereunder shall be determined as if such Bank had not sold such participation.

Section 11.09. Records. The unpaid principal amount of the Notes, the unpaid interest accrued thereon, the interest rate or rates applicable to such unpaid principal amount, the duration of such applicability, the Revolving Credit Commitments and the accrued and unpaid Commitment Fee shall at all times be ascertained from the records of the Agent, which shall be conclusive absent manifest error.

Section 11.10. Judicial Proceedings. Each party to this Agreement agrees that any suit, action or proceeding, whether claim or counterclaim, brought or instituted by any party hereto or any successor or assign of any party, on or with respect to this Agreement or any of the other Loan Documents or the dealings of the parties with respect hereto, or thereto, shall be tried only by a court and not by a jury. EACH PARTY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. Further, except as otherwise provided herein, each party waives any right it may have to claim or recover, in

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any such suit, action or proceeding, any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. THE BORROWER ACKNOWLEDGES AND AGREES THAT THIS SECTION IS A SPECIFIC AND MATERIAL ASPECT OF THIS AGREEMENT AND THAT THE BANKS WOULD NOT EXTEND CREDIT TO THE BORROWER IF THE WAIVERS SET FORTH IN THIS SECTION WERE NOT A PART OF THIS AGREEMENT.

Section 11.11. Consent to Jurisdiction and Service of Process. The Borrower irrevocably appoints each and every financial or executive officer of the Borrower as its attorneys upon whom may be served, by regular or certified mail at the address set forth in Section [11.12] hereof, any notice, process or pleading in any action or proceeding against it arising out of or in connection with this Agreement or any of the other Loan Documents; and the Borrower hereby consents that any action or proceeding against it be commenced and maintained in any court within the Commonwealth of Pennsylvania or in the United States District Court for the Eastern District of Pennsylvania by service of process on any such officer; and the Borrower agrees that the courts of the Commonwealth of Pennsylvania and the United States District Court for the Eastern District of Pennsylvania shall have jurisdiction with respect to the subject matter hereof and the person of the Borrower and the collateral, if any. Notwithstanding the foregoing, the Agent and the Banks, in their absolute discretion may also initiate proceedings in the courts of any other jurisdiction in which the Borrower may be found or in which any of its properties may be located.

Section 11.12. Notices. All notices, requests, demands, directions and other communications (collectively, 'notices') given to or made upon any party hereto under the provisions of this Agreement shall be by telephone or in writing (including telex or facsimile communication) unless otherwise expressly permitted hereunder and shall be delivered or sent by telex or facsimile to the respective parties at the addresses and numbers set forth under their respective names on the signature pages hereof or in accordance with any subsequent unrevoked written direction from any party to the others. All notices shall, except as otherwise expressly herein provided, be effective (a) in the case of telex or facsimile, when received, (b) in the case of hand-delivered notice, when hand delivered, (c) in the case of telephone, when telephoned, provided, however, that in order to be effective, telephonic notices must be confirmed in writing no later than the next day by letter, facsimile or telex, (d) if given by mail, four (4) days after such communication is deposited in the mails with first class postage prepaid, return receipt requested, and (e) if given by any other means (including by air courier), when delivered; provided, that notices to the Agent shall not be effective until received. Any Bank giving any notice to the Borrower shall simultaneously send a copy thereof to the Agent, and the Agent shall promptly notify the other Banks of the receipt by it of any such notice.

Section 11.13. Severability. The provisions of this Agreement are intended to be severable. If any provision of this Agreement shall be held invalid or unenforceable in whole or in part in any jurisdiction such provision shall, as to such jurisdiction, be ineffective to the extent of such invalidity or unenforceability without in any manner affecting the validity or enforceability thereof in any other jurisdiction or the remaining provisions hereof in any jurisdiction.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed, or caused it to be executed by their duly authorized officers in several counterparts, all as of the date first above written.

ATTEST:

By: Patricia M. Mycek
Name: Patricia M. Mycek

Title: Corporate Secretary

PHILADELPHIA SUBURBAN WATER COMPANY

By: Michael P. Graham
Name: Michael P. Graham

Title: Senior Vice President --
Finance & Treasurer
Address: 762 Lancaster Avenue
Bryn Mawr, PA 19010
Tel. No: (610) 645-1087
Telecopy: 610) 645-1061
MELLON BANK, N.A.
By: Frank P. Mohapp
Name: Frank P. Mohapp
Title: Vice President
Address: Plymouth Meeting Executive Campus
610 West Germantown Pike,
Suite 200
Plymouth Meeting, PA 19462
Tel. No: (610) 941-4188
Telecopy: (610) 941-4136
PNC BANK, NATIONAL ASSOCIATION
By: Orlando Esposito
Name: Orlando Esposito
Title: Vice President
Address: Valley Forge Regional
Banking Center
Suite 200
1000 Westlakes Drive
Berwyn, PA 19312
Tel. No: (610) 640-4900
Telecopy: (610) 640-4914

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FIRST FIDELITY BANK, NATIONAL ASSOCIATION

By: Thomas J. Saunders
Name: Thomas J. Saunders
Title: Vice President
Address: 123 South Broad Street
PMB010
Philadelphia, PA 19109-1199
Tel. No: (215) 985-3575
Telecopy: (215) 985-3719
MERIDIAN BANK
By: Patrick B. Trainor
Name: Patrick B. Trainor
Title: Assistant Vice President
Address: Corporate Banking Department
One Liberty Place
Suite 3600
Philadelphia, PA 19103
Mailing Address: Corporate Banking Department
OL3620
P.O. Box 7588
Philadelphia, PA 19103
Tel. No: (215) 854-3778
Telecopy: (215) 854-3774

SCHEDULE 1.01 (A)

NAME AND ADDRESS OF BANK	AMOUNT OF COMMITMENT FOR REVOLVING CREDIT LOANS	PERCENTAGES
1. Mellon Bank, N.A. Plymouth Meeting Executive Campus 610 West Germantown Pike Suite 200 Plymouth Meeting, PA 19462 Attn: Mr. Frank P. Mohapp Vice President Tel: (610) 941-4188 Fax: (610) 941-4136 Mellon Bank, N.A. Attn: Loan Administration, Flossie Bowers Mellon Independence Center 199-5220 701 Market Street Philadelphia, PA 19106 Tel: (215) 553-3414 Fax: (215) 553-4789 or (215) 553-1016	\$ 19,000,000	63 1/3%
2. PNC Bank, National Association Valley Forge Regional Banking Center Suite 200 1000 Westlakes Drive Berwyn, PA 19312	\$ 4,000,000	13 1/3%
3. First Fidelity Bank, National Association 123 South Broad Street PMB010 Philadelphia, PA 19101-1199	\$ 4,000,000	13 1/3%
4. Meridian Bank Corporate Banking Department OL3620 P.O. Box 7588 Philadelphia, PA 19101	\$ 3,000,000	10%
TOTAL REVOLVING CREDIT COMMITMENTS:	\$ 30,000,000	100%

SCHEDULE 5.05 (B)

ADDITIONAL EXISTING BANK INDEBTEDNESS

A. \$1,000,000 discretionary line of credit facility between Mellon Bank, N.A. and Philadelphia Suburban Water Company. Loan balance at February 28, 1994 is \$120,000.

B. Also, see Schedule 5.08.

SCHEDULE 5.07

MATERIAL LITIGATION

A. Such litigation which is being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on the appropriate books in accordance with GAAP.

B. See the description of two cases involving a warehouse fire in Newark, New Jersey described on Schedule 5.13(C) and (D). Notice of the Frigid case was provided to PSWC's insurance carrier and the carrier has indicated an intention to reserve its rights with respect to coverage for this claim.

SCHEDULE 5.08

CONTINGENT LIABILITIES

A. Operating lease between LMV Leasing, Inc. and Philadelphia Suburban Water Company for automobiles and other equipment through 1997. During the next four years, \$1,191,000 of future minimum lease payments are due: \$768,000 in

1994, \$314,000 in 1995, \$108,000 in 1996, and \$1,000 in 1997.

B. Suretyship agreements in the amount of \$4,137,461.00 as of March 17, 1994. The major portion of this amount, \$3,352,961, arises from the bonding requirements under the Pennsylvania Residual Waste Regulations relating to the future closure of landfills used to dispose of water treatment plant sludge. The balance of the surety bonds support various licenses, permits and condemnations.

C. Agreements for the purchase of water are maintained with Chester Water Authority and Bucks County Water and Sewer Authority. The agreements stipulate purchases of minimum quantities of water to the year 2017. As of December 31, 1993, the estimated annual commitments related to such purchases total approximately \$2,637,000 through 1998.

D. In the normal course of business, after PSWC performs excavation work in various highways in order to access water mains and other underground facilities, PSWC is required by township and state permits to restore the excavated area.

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SCHEDULE 5.10

ENCUMBRANCES

None.

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SCHEDULE 5.13

ENVIRONMENTAL MATTERS

A. In its water treatment process, PSWC uses chemicals, including chlorine, caustic soda and sodium chlorite, which are listed as hazardous substances. These chemicals are, in all material respects, stored and used at PSWC's plants and facilities in accordance with the Environmental Laws.

B. PSWC operates a central laboratory at its Bryn Mawr facility for analysis of drinking water samples. To perform required analyses, PSWC maintains small quantities of solvents, reagents and chemical standards, some of which are listed as hazardous substances. These materials, in all material respects, are stored and used in compliance with the Environmental Laws.

C. By letter dated March 4, 1992, the New Jersey Department of Environmental Protection and Energy ('DEPE') advised PSWC and over 70 other entities of a pending arbitration proceeding involving a company named 'Frigid, Inc.' and the New Jersey Spill Compensation Fund (the 'Spill Fund'). The arbitration involves Frigid's claim to recover damages totaling \$2,500,000 allegedly resulting from a fire on April 11, 1983 in a warehouse near Frigid's facility. During the fire, hazardous substances were allegedly discharged from the burning warehouse. DEPE has informed PSWC that it believes that some materials from PSWC may have been transported to and stored at the warehouse where the fire occurred. DEPE has identified PSWC and the other 70 entities as potentially responsible parties. Under New Jersey law, a party who is in any way responsible for a hazardous substance discharge may be strictly liable and jointly and severally liable for the cost of clean-up. The arbitration will not address PSWC's liability, but only whether Frigid can recover from the Spill Fund. The arbitration is scheduled for March, 1994 and the DEPE and certain of the potentially responsible parties are expected to contest the amount and validity of Frigid's claim. If Frigid is successful in its claim, the DEPE would likely seek to recover from the potentially responsible parties the amount paid from the Spill Fund. Frigid, Inc./Enertron Industries, Inc. Arbitration.

D. During the week of March 6, 1994, PSWC was advised by an outside party that the State of New Jersey had instituted a separate action in the Superior Court of Essex County seeking reimbursement of the costs incurred by the State as a result of warehouse fire mentioned in the Frigid summary above. PSWC was advised, but has not been able to confirm, that the State of New Jersey is seeking reimbursement for approximately \$3.5 million dollars. PSWC believes that it has been named as a defendant along with approximately 100 other entities. As of March 15, 1994, PSWC had not been served with this Complaint. State of New Jersey, Department of Environmental Protection and Energy v. Signo Trading International.

Note: A general description of Environmental Matters is included as a portion of the Annual Report on Form 10-K prepared each year for Philadelphia Suburban Corporation.

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SCHEDULE 6.03

INSURANCE

AMOUNT	COVERAGE
GENERAL LIABILITY	\$1,000,000 combined single limit
UMBRELLA LIABILITY	\$12,500,000 combined single limit
PROPERTY	\$10,000,000

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SCHEDULE 6.13

BANK INDEBTEDNESS PERMITTED

A. \$1,000,000 discretionary line of credit facility between Mellon Bank, N.A. and Philadelphia Suburban Water Company.

B. Credit Facility with Mellon Bank, N.A. for up to \$3,000,000 in Letters of Credit.

C. \$15,000,000 of short term debt (for a period not to exceed 180 days) provided that such short term debt is offered in writing first to the Agent and the Banks in proportion to their Ratable Share of the Revolving Credit Loans hereunder.

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REVOLVING CREDIT NOTE

\$19,000,000

Philadelphia, PA
March 17, 1994

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN WATER COMPANY (the 'Borrower'), promises to pay to the order of MELLON BANK, N.A. (the 'Bank') on or before March 1, 1998 the lesser of (i) the principal sum of NINETEEN MILLION DOLLARS (\$19,000,000) or (ii) the aggregate unpaid principal amount of all Revolving Credit Loans disbursed by the Bank to the Borrower pursuant to the Agreement.

The Borrower further promises to pay to the order of the Bank interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to Section 4.02 of, or as otherwise provided in, the Agreement payable on the dates set forth in Section 3.06 of, or as otherwise provided in, the Agreement.

This Revolving Credit Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Revolving Credit Agreement dated as of March 17, 1994, by and among inter alia, the Borrower, the Agent and the Bank (as the same may be amended, modified or supplemented from time to time, the 'Agreement'). Terms defined in the Agreement have the same meanings herein.

Except as expressly provided in the Agreement, the Borrower hereby expressly waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Revolving Credit Note and the Agreement, and any action for amounts due hereunder or thereunder shall immediately accrue.

This Revolving Credit Note shall be governed by, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the undersigned hereby executes this Note the day first above written.

PHILADELPHIA SUBURBAN WATER COMPANY

Attest: Patricia M. Mycek

By Michael P. Graham
Title: Sr. Vice President -- Finance

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REVOLVING CREDIT NOTE

\$4,000,000

Philadelphia, PA
March 17, 1994

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN WATER COMPANY (the 'Borrower'), promises to pay to the order of FIRST FIDELITY BANK, NATIONAL ASSOCIATION (the 'Bank') on or before March 1, 1998 the lesser of (i) the principal sum of FOUR MILLION DOLLARS (\$4,000,000) or (ii) the aggregate unpaid principal amount of all Revolving Credit Loans disbursed by the Bank to the Borrower pursuant to the Agreement.

The Borrower further promises to pay to the order of the Bank interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to Section 4.02 of, or as otherwise provided in, the Agreement payable on the dates set forth in Section 3.06 of, or as otherwise provided in, the Agreement.

This Revolving Credit Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Revolving Credit Agreement dated as of March 17, 1994, by and among inter alia, the Borrower, the Agent and the Bank (as the same may be amended, modified or supplemented from time to time, the 'Agreement'). Terms defined in the Agreement have the same meanings herein.

Except as expressly provided in the Agreement, the Borrower hereby expressly waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Revolving Credit Note and the Agreement, and any action for amounts due hereunder or thereunder shall immediately accrue.

This Revolving Credit Note shall be governed by, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the undersigned hereby executes this Note the day first above written.

PHILADELPHIA SUBURBAN WATER COMPANY

Attest: Patricia M. Mycek

By Michael P. Graham
Title: Sr. Vice President -- Finance

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REVOLVING CREDIT NOTE

\$3,000,000

Philadelphia, PA
March 17, 1994

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN WATER COMPANY (the 'Borrower'), promises to pay to the order of MERIDIAN BANK (the 'Bank') on or before March 1, 1998 the lesser of (i) the principal sum of THREE MILLION DOLLARS (\$3,000,000) or (ii) the aggregate unpaid principal amount of all Revolving Credit Loans disbursed by the Bank to the Borrower pursuant to the Agreement.

The Borrower further promises to pay to the order of the Bank interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to Section 4.02 of, or as otherwise provided in, the Agreement payable on the dates set forth in Section 3.06 of, or as

otherwise provided in, the Agreement.

This Revolving Credit Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Revolving Credit Agreement dated as of March 17, 1994, by and among inter alia, the Borrower, the Agent and the Bank (as the same may be amended, modified or supplemented from time to time, the 'Agreement'). Terms defined in the Agreement have the same meanings herein.

Except as expressly provided in the Agreement, the Borrower hereby expressly waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Revolving Credit Note and the Agreement, and any action for amounts due hereunder or thereunder shall immediately accrue.

This Revolving Credit Note shall be governed by, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the undersigned hereby executes this Note the day first above written.

PHILADELPHIA SUBURBAN WATER COMPANY

Attest: Patricia M. Mycek

By Michael P. Graham
Title: Sr. Vice President -- Finance

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REVOLVING CREDIT NOTE

\$4,000,000

Philadelphia, PA
March 17, 1994

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN WATER COMPANY (the 'Borrower'), promises to pay to the order of PNC BANK, NATIONAL ASSOCIATION (the 'Bank') on or before March 1, 1998 the lesser of (i) the principal sum of FOUR MILLION DOLLARS (\$4,000,000) or (ii) the aggregate unpaid principal amount of all Revolving Credit Loans disbursed by the Bank to the Borrower pursuant to the Agreement.

The Borrower further promises to pay to the order of the Bank interest on the unpaid principal amount hereof from time to time outstanding at the rate or rates per annum determined pursuant to Section 4.02 of, or as otherwise provided in, the Agreement payable on the dates set forth in Section 3.06 of, or as otherwise provided in, the Agreement.

This Revolving Credit Note is one of the Revolving Credit Notes referred to in, and is entitled to the benefits of, the Revolving Credit Agreement dated as of March 17, 1994, by and among inter alia, the Borrower, the Agent and the Bank (as the same may be amended, modified or supplemented from time to time, the 'Agreement'). Terms defined in the Agreement have the same meanings herein.

Except as expressly provided in the Agreement, the Borrower hereby expressly waives presentment, demand, notice, protest and all other demands and notices in connection with the delivery, acceptance, performance, default or enforcement of this Revolving Credit Note and the Agreement, and any action for amounts due hereunder or thereunder shall immediately accrue.

This Revolving Credit Note shall be governed by, construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the undersigned hereby executes this Note the day first above written.

PHILADELPHIA SUBURBAN WATER COMPANY

Attest: Patricia M. Mycek

By Michael P. Graham
Title: Sr. Vice President -- Finance

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EXHIBIT 11.08
ASSIGNMENT AND ASSUMPTION AGREEMENT

Reference is hereby made to the Revolving Credit Agreement dated as of March 17, 1994 (as amended, supplemented or modified from time to time, the 'Credit Agreement') among PHILADELPHIA SUBURBAN WATER COMPANY, a Pennsylvania corporation, (the 'Borrower'), the Banks listed in Schedule 1.01(a) to the Credit Agreement (the 'Banks') and MELLON BANK, N.A., a national banking association (the 'Agent') as Agent for the Banks. Unless otherwise defined herein, terms defined in the Credit Agreement are used herein with the same meanings.

_____ (the 'Assignor') and _____
_____ (the 'Assignee'), intending to be legally bound
hereby, make this Assignment and Assumption Agreement this ___ day of
_____, 199__ and hereby agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, WITHOUT RECOURSE, REPRESENTATION OR WARRANTY (except as expressly set forth herein), to the Assignor, a _____ percent (___%) interest in and to all of the Assignor's rights and obligations under the Credit Agreement as of the Effective Date (as defined below), including without limitation, such percentage interest in the Assignor's Revolving Credit Commitment as in effect on the Effective Date, the Loans owing to the Assignor on the Effective Date and the Notes evidencing the outstanding Loans held by the Assignor.

2. The Assignor (i) represents and warrants that, as of the date hereof, its Revolving Credit Commitment is \$_____, the unpaid principal amount of the Revolving Credit Loans owing to the Assignor is \$_____, (ii) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (iii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any of the Loan Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or any of the Loan Documents or any other instrument or document furnished pursuant thereto; (iv) makes no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance or observance by Borrower of any of its respective obligations under the Credit Agreement or any of the Loan Documents or any other instrument or document furnished pursuant thereto; and (v) attaches the Notes referred to in paragraph 1 above and requests that the Agent exchange such Notes for new Notes as follows:

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements (if any) referred to in Sections 6.02 and 5.05 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption Agreement; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor 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 the Credit Agreement; (iii) appoints and authorizes the Agent to take such actions on its behalf and to exercise such powers under the Loan Documents as are delegated to the Agent by the terms thereof; (iv) agrees that it will become a party to and be bound by the Credit Agreement on the Effective Date (including, without limitation, the provisions of Section 10.11) as if it were an original Bank thereunder and will have the rights and obligations of a Bank thereunder and will

perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank; and (v) specifies as its address for notices the office set forth beneath its name on the signature pages hereof.

4. The effective date of this Assignment and Assumption Agreement shall be _____, 199__ (the 'Effective Date'). Following the execution of this Assignment and Assumption Agreement, it will be delivered to the Agent for acceptance and recording by the Agent.

5. Upon such acceptance and recording, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Assumption Agreement, have the rights and obligations of a Bank thereunder and under the Loan Documents and (ii) the Assignor shall, to the extent provided in this Assignment and Assumption Agreement, relinquish its rights and be released from its obligations under the Credit Agreement, and the Revolving Credit Commitments of the Assignor and the Assignee shall be as set forth in Schedule I hereto.

6. Upon such acceptance and recording, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and the Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest, Commitment Fees and other fees with respect thereto) to the Assignor and the Assignee as their interests appear on Schedule I hereto. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and the Notes for periods prior to the Effective Date directly between themselves.

7. The Assignor makes this assignment to the Assignee in consideration of the payment by the Assignee to the Assignor of \$_____, receipt of which is hereby acknowledged by the Assignor.

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

[NAME OF ASSIGNOR]

By
Name:
Title:

[NAME OF ASSIGNEE]

By
Name:
Title:

Notice Address For Assignee:

Telephone No.:

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Telecopier No.:

Attention:

CONSENTED TO THIS
day of _____, 199__.

[BORROWER]

By:

Title:

MELLON BANK, N.A., as Agent

By:

Title:

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SCHEDULE I

	AMOUNT OF REVOLVING CREDIT COMMITMENT FOR THE REVOLVING CREDIT LOANS AS OF THE EFFECTIVE DATE	AMOUNT OF THE REVOLVING CREDIT LOANS HELD AS OF THE EFFECTIVE DATE
	-----	-----
[Assignor]	\$	\$
	-----	-----
[Assignee]	\$	\$
	-----	-----

SCHEDULE 6.02(a)

Company Letterhead
Addressed to Banks

The Compliance Certificate ('Compliance Certificate') is executed and delivered by Philadelphia Suburban Water Company (the 'Company') to Mellon Bank, N.A. (the 'Agent') and Mellon Bank, N.A. and PNC Bank, National Association, First Fidelity Bank, National Association, and Meridian Bank (individually a 'Bank' and collectively the 'Banks') pursuant to Section 6.02(a) of the Revolving Credit Agreement dated March 17, 1994 by and among the Company, the Agent and the Banks (the 'Credit Agreement'). Any term used herein and not defined herein shall have the meanings defined in the Credit Agreement. This Compliance Certificate covers the Company's:

Fiscal quarter ended

The attachments set forth calculations in compliance with obligations pursuant to Section 6.15 and 6.18 of the Credit Agreement, as of the end of the fiscal period set forth in paragraph 1 hereof:

The undersigned has reviewed the terms of the Credit Agreement and has made, or caused to be made under his/her supervision, a review in reasonable detail of the transactions and condition of the Company during the fiscal period covered by this Compliance Certificate. The undersigned does not (either as a result of such review or otherwise) have any knowledge of the existence as of the date of this Compliance Certificate of any condition or event that constitutes an Event of Default.

As of the date hereof (a) to the best of the undersigned's knowledge the representations and warranties of the Borrower contained in the Credit Agreement are true and correct in all material respects, (b) to the best of the undersigned's knowledge the Borrower is in full compliance with all covenants contained in the Credit Agreement and (c) to the best of undersigned's knowledge, no event has occurred and is continuing which constitutes an Event of Default or an event which, with the giving of notice or lapse of time or both, would constitute such an Event of Default.

All terms not defined herein but used as defined terms herein shall have the meaning ascribed to them in the Credit Agreement.

This Compliance Certificate is executed on _____ by the Chief Financial Officer. The undersigned hereby certifies that each and every matter contained herein is derived from the Company's books and records and is, to the best of the undersigned, true and correct.

Philadelphia Suburban Water Company
By: _____
Title: _____

PHILADELPHIA SUBURBAN CORPORATION
1994 INCENTIVE COMPENSATION PROGRAM

BACKGROUND

- o During the first quarter of 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies and PSC's experience with incentive compensation.
- o The study included interviews with PSWC and PSC executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan.
- o The program has two components -- a Management Incentive Plan and an Employee Recognition Plan.
- o After three years of experience with the Incentive Compensation Program, management has recommended certain changes to the Program to ensure the Program provides the appropriate incentive to the officers and managers of the Company. The 1994 Management Incentive Plan will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries, except Utility & Municipal Services, Inc., which is covered by a separate incentive bonus arrangement based on the profitability of that subsidiary.

MANAGEMENT INCENTIVE PLAN

- o Performance Measures
 - PSC's actual after-tax net income from continuing operations relative to the annual budget will be the primary measure. Each year a 'Target Net Income' level will be established. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 1994, the Target Net Income will exclude the impact of FAS 106, the effect of any unbudgeted extraordinary gains or losses, changes in accounting principles, changes in tax rates and any gains or losses related to the discontinued operations.
 - Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the Target Net Income. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target Net Income for the year. No additional bonus will be earned for results exceeding 120 percent of the Target Net Income.
 - Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation.
- o Participation
 - Participation in the Plan will be determined each year. Each participant will be assigned a 'Target Bonus Percentage' ranging from 5 to 40 percent of salary depending on duties and responsibilities.
 - Actual bonuses may range from 0, if the Company's financial results fall below threshold or the participant's performance rating is Below Expectations, to 225 percent if performance -- both company and individual -- is rated at 150 percent.
 - Exhibit 1 shows the recommended participants and the Target Bonus Percentages for the current year.

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- o Company Performance
 - Company performance will be measured on the following schedule:

PERCENT OF COMPANY

	1993 PLAN	RATING
	-----	-----
Threshold.....	90%	50%
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan.....	100	100
	105	110
	110	120
	115	135
	>120	150

-- Exhibit 2 shows the recommended Company Performance Schedule for the current year.

-- Regardless of the Company rating resulting from this Schedule, the Executive Development and Compensation 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:

	INDIVIDUAL RATING

Below Expectations.....	0
At Expectations (-).....	70- 90%
At Expectations.....	90-110%
At Expectations (+) (Superior).....	110-130%
Exceeds Expectations (Outstanding).....	130-150%

o Estimated Cost

-- Exhibit 3 shows the estimated cost of the 1994 plan year assuming a 100 percent Company Rating and all individuals receive a 100 percent Individual Rating.

SAMPLE CALCULATIONS

o Example 1

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

TARGET BONUS	X	COMPANY RATING	X	INDIVIDUAL RATE	=	BONUS EARNED
-----		-----		-----		-----
\$7,000	x	100%	x	90%	=	\$ 6,300

o Example 2

-- Using the same salary and target bonus, but assuming Company performance

was less than 90 percent of Target Net Income, there would be no bonus earned.

Calculation:

$$\$7,000 \times 0 \times 90\% = 0$$

o Example 3

-- Similarly, if individual Performance is rated Below Expectations, no bonus would be earned regardless of the Company Rating.

Calculation:

$$\$7,000 \times 100\% \times 0 = 0$$

EMPLOYEE RECOGNITION PLAN

- o In addition to the Management Incentive Plan, Company maintains an Individual Recognition Plan to reward employees not eligible for the management plan for superior performance or a special action or project that positively impacts the financial results or image of the Company.
- o Awards will be made from an annual pool, not to exceed \$50,000, established at the beginning of the year. Unused funds would not be carried over to the next year.
- o Awards will be made throughout the year with payment as close to the timing of the event being rewarded as possible.
- o Department Heads may nominate individuals in their unit to the President or applicable Senior Vice President and document the reasons for the recommendations. The applicable unit President or Senior Vice President will review the nominations and forward their recommendations to the Chief Executive Officer.
- o The Chief Executive Officer will determine the individuals to actually receive a bonus and the amount.

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EXHIBIT 1

PHILADELPHIA SUBURBAN CORPORATION RECOMMENDED 1994 PARTICIPANTS

NAME	TITLE	TARGET BONUS PERCENTAGE
OFFICERS		
N. DeBenedictis	Chief Executive Officer	40
R. Luksa	President & COO-PSW	30
R. Riegler	Sr. V.P. Operations	25
R. Stahl	Sr. V.P. Law & Administration	25
M. Graham	V.P. Finance and Treasurer	25
M. Coulter	V.P. Production	20
H. Coleman	V.P. Customer Service	20
R. Hugus	V.P. Corporate Development	25
W. McIntyre	V.P. Maintenance & Construction	15
D. Smeltzer	V.P. Rates/Regulatory Affairs	15
M. Mooney	Controller	15
P. Mycek	Corporate Secretary	5
MANAGERS		
L. Doyle	Mgr. Meter Operations	5
J. Delzingaro	AMR Project Manger	5
G. Harmon	Mgr., Customer Service	5
R. Griffin	Mgr., Rates & Revenues	5
R. Dollfus	Mgr., Great Valley Division	5
D. Mahoney	Mgr., Drafting/Records	5
A. Fernandes	Mgr., Eng. Design/Construction	5
S. Draper	Mgr., MIS	5
S. Broussard	Mgr., Human Resources	5

R. Rubin	Finance Manager	5
G. Smith	Mgr., Facilities	5
D. Bruce	Mgr., Transportation	5
R. Harlan	Mgr., IS Customer Service	5
W. Barrett	Mgr., IS Technical Services	5
C. Hertz	Mgr., Laboratory Tech. Services	10
J. Grantland	Mgr., Distribution	10
J. Dennin	Mgr., Eastern Division	10
D. Gorbey	Mgr., Southern & Western Division	10
R. Germon	Mgr., Mech./Elect.	10
P. Luitweiler	Mgr., Res./Env. Affairs/Grndwater	10
J. Ritter	Mgr., Treatment/Quality Control	10
T. Kiely	Chief Engineer	10
T. Yohe	Sr. Mgr., Water Quality Group	10
R. Robinson	Sr. Mgr., Special Services	10
M. Kropilak	Corporate Counsel	10
R. Linneman	Sr. Mgr., Information Services	10
C. Franklin	Mgr., Corporate and Public Affairs	10

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EXHIBIT 2

PHILADELPHIA SUBURBAN CORPORATION
RECOMMENDED 1994 COMPANY PERFORMANCE SCHEDULE

	AFTER TAX NET INCOME	PERCENT OF 1994 PLAN	COMPANY RATING
	-----	-----	-----
Threshold.....	\$ 13,329,000	90%	50%
	13,625,200	92	65
	14,069,500	95	80
	14,217,600	96	85
	14,365,700	97	90
	14,513,800	98	94
	14,661,900	99	97
Plan.....	14,810,000	100	100
	15,550,500	105	110
	16,291,000	110	120
	17,031,500	115	135
	>17,772,000	120	150

1993 Actual Net Income = \$13,835,000
1993 Adjusted Net Income = \$13,951,000
1994 Budgeted Net Income = \$14,810,000

Note: Payment of any bonus is always subject to the discretion of the Executive Compensation and Employee Benefits Committee and the Board of Directors.

For purposes this Plan, the calculation of after tax net income shall exclude the impact of FAS 106, the effect of unbudgeted extraordinary gains or losses, changes in accounting principles, changes in tax rates and any gains or losses related to the discontinued operations.

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EXHIBIT 3

PHILADELPHIA SUBURBAN CORPORATION
ESTIMATED TARGET COSTS FOR 1994 PLAN

	TARGET

Officers.....	\$ 382,311
Managers.....	129,259
TOTAL.....	\$ 511,570

PHILADELPHIA SUBURBAN CORPORATION
1994 EQUITY COMPENSATION PLAN

1. PURPOSE

The purpose of this plan (the 'Plan') is to provide an incentive, in the form of a proprietary interest in Philadelphia Suburban Corporation (the 'Corporation'), to officers and other key employees of the Corporation and its subsidiaries and key consultants who are in a position to contribute materially to the successful operation of the business of the Corporation, to increase their interest in the Corporation's welfare, and to provide a means through which the Corporation can attract and retain officers and other key employees and key consultants of significant abilities.

2. ADMINISTRATION

This Plan shall be administered by a Committee (the 'Committee') of the Board of Directors of the Corporation. The Committee shall consist of three or more of those members of the Board of Directors who are not eligible, and for at least one year prior to their appointment were not eligible, to receive grants under the Plan or any other plan of the Corporation or any of its affiliates entitling the participants therein to acquire stock, stock options, stock appreciation rights or dividend equivalents of the Corporation or any of its affiliates.

From time to time the Committee or the Board of Directors may make grants, subject to the terms of the Plan, with respect to such number of shares of Common Stock of the Corporation as the Committee or the Board of Directors, each acting in its sole discretion, may determine. All references to the Committee hereunder shall also mean the Board of Directors when acting pursuant to its authority to make grants under the Plan.

Subject to the provisions of the Plan, the Committee shall be authorized to interpret the Plan and the grants made under the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of the agreement related to grants described in Section 9 hereof, and to make all other determinations, including factual determinations, necessary or advisable for the administration of the Plan. The Committee may correct any defect, supply any omission and reconcile any inconsistency in the Plan or in any option or grant in the manner and to the extent it shall be deemed desirable to carry it into effect. The determinations of the Committee in the administration of the Plan, as described herein, shall be final and conclusive. The Committee may adopt such rules and regulations as it deems necessary for governing its affairs.

3. GRANTS

Pursuant to the terms of the Plan, the Committee shall have the authority to grant stock options to officers and other key employees and key consultants and restricted stock and dividend equivalents to officers and other key employees (hereinafter collectively referred to as the 'Grants'). All Grants shall be subject to the terms and conditions set forth herein and to those other terms and conditions consistent with this Plan as the Committee deems appropriate and as are specified in writing by the Committee in the agreement described in Section 9 of the Plan (the 'Agreement'). Grants under a particular Section of the Plan need not be uniform as among the employees or consultants and Grants under two or more Sections of the Plan may be combined in one instrument.

4. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in Section 15, the maximum aggregate number of shares of the Common Stock of the Corporation that may be issued or transferred under the Plan shall be 450,000 shares. The maximum number of shares of Common Stock that may be issued or transferred under the Plan subject to restricted stock grants is 25,000 shares of Common Stock. Shares deliverable under the

Committee may from time to time determine. Shares of Common Stock related to the unexercised or undistributed portion of any terminated, expired or forfeited Grant for which no material benefit was received by a grantee also may be made available for distribution in connection with future Grants under the Plan.

5. ELIGIBILITY

Only officers, key employees and key consultants of the Corporation and its subsidiaries (excluding any director who is not a salaried employee) shall be eligible for Grants under the Plan. The term 'subsidiaries' shall mean any corporation in an unbroken chain of corporations beginning with the Corporation, if at the time of the Grant, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

6. GRANTING OF OPTIONS

The Committee may, from time to time, grant stock options to eligible officers and other key employees and shall designate options at the time of grant as either 'incentive stock options' intended to qualify as such under section 422 of the Internal Revenue Code of 1986, as from time to time amended or any successor statute of similar purpose (the 'Code'), or 'nonqualified stock options', which options are not intended to so qualify. The Committee may, from time to time, grant nonqualified stock options to key consultants. Except as hereinafter provided, options granted pursuant to the Plan shall be subject to the following terms and conditions:

(a) Price

The purchase price per share of stock deliverable upon the exercise of each option shall be not less than 100% of the fair market value of the Corporation's Common Stock on the date the option is granted. The fair market value shall be the mean of the high and low sale prices of the Corporation's Common Stock on the New York Stock Exchange composite tape or other recognized market source, as determined by the Committee, on the date the option is granted, or if there is no sale on such date, then the mean of such high and low sale prices on the last previous day on which a sale is reported. In any event, in case of the grant of an incentive stock option, the fair market value shall be determined in a manner consistent with section 422 of the Code.

Shares may be purchased only by delivering a notice of exercise to the Committee with accompanying payment of the purchase price therefor in full. Such notice may instruct the Corporation to deliver shares of Common Stock due upon the exercise of the option to any registered broker or dealer in lieu of delivery to the grantee. Such instructions must designate the account into which the shares are to be deposited. The grantee may tender this notice of exercise, which has been properly executed by the grantee, and the aforementioned delivery instructions to any broker or dealer. With the consent of the Committee, payment of the purchase price may be made, in whole or in part, through the surrender of shares of the Common Stock of the Corporation (including without limitation shares of Common Stock acquired pursuant to the option then being exercised) at the fair market value of such shares determined as of the last trading day prior to the date on which the option is exercised, in the same manner set forth in the above paragraph.

(b) Terms of Options

The term during which each incentive stock option may be exercised shall be determined by the Committee, but in no event shall an incentive stock option be exercisable in whole or in part more than 10 years from the date it is granted and in no event shall a nonqualified stock option be exercisable in whole or in part more than 10 years and one day from the date it is granted. All rights to purchase pursuant to an option shall, unless sooner terminated, expire at the date designated by the Committee.

The Committee shall determine the date on which each option shall become exercisable and may provide that an option shall become exercisable in installments. The shares comprising each installment may be purchased in whole or in part at any time after such installment becomes

exercisable. The Committee may, in its sole discretion, accelerate the time at

which any option may be exercised in whole or in part. Notwithstanding any determinations by the Committee regarding the exercise period of any option, all outstanding options shall become immediately exercisable upon a Change of Control of the Corporation (as defined herein).

(c) Termination of Employment

Upon the termination of a grantee's employment for any reason (except as a result of retirement, disability or death), the options held by such grantee shall terminate. Notwithstanding the fact that, in all cases, a grantee's employment shall be deemed to have terminated upon the sale of a subsidiary of the Corporation that employs such grantee, the Committee, in its sole discretion, may extend the period during which any option held by such a grantee may be exercised after such sale to the earliest of (i) a date which is not more than three years from the date of the sale of the subsidiary, (ii) the date of the grantee's termination of employment with the subsidiary (or successor employer) following such sale for reasons other than retirement, disability or death, (iii) the date which is one year from the date of the grantee's termination of employment with the subsidiary on account of the grantee's total disability (as defined in section 22(e)(3) of the Code), or three months from the date of such termination if on account of retirement or a disability other than a total disability, or (iv) the expiration of the original term of the option as established at the time of grant. The Committee, in its sole discretion, may similarly extend the period of exercise of any option held by a grantee employed by the Corporation whose employment with the Corporation is terminated in connection with the sale of a subsidiary of the Corporation.

Upon termination of a grantee's employment as a result of retirement, disability or death, the period during which the options may be exercised shall not exceed: (i) one year from the date of such termination of employment in the case of death and (ii) two years from the date of such termination in the case of permanent and total disability (within the meaning of section 22(e)(3) of the Code) or retirement; and (iii) three months from the date of such termination of employment in the case of other disability; provided, however, that in no event shall the period extend beyond the expiration of the option term.

Subject to the foregoing, in the event of death, such options may be exercised by a grantee's legal representative or beneficiary, but only to the extent that installments had accrued as of the date of death. Notwithstanding the foregoing, the Committee, in its sole discretion, may determine that installments that have not accrued as of the date of the grantee's death, termination of employment on account of permanent and total disability (within the meaning of section 22(e)(3) of the Code) or other termination of employment may also be exercised by a grantee, or in the case of death, a grantee's legal representative or beneficiary. Transfer from the Corporation to a subsidiary, from a subsidiary to the Corporation, or from one subsidiary to another, shall not be deemed to be a termination of employment. All references in this Section 6(c) to the termination of a grantee's employment shall include the termination of a consultant's relationship with the Corporation or any subsidiary.

(d) Limits on Incentive Stock Options.

Each Grant of an incentive stock option shall provide that it (i) is not transferable by the grantee otherwise than by will or the laws of descent and distribution or, if permitted under Rule 16b-3 of the Securities Exchange Act of 1934 (the 'Exchange Act') and if permitted in any specific case by the Committee in its sole discretion, pursuant to a qualified domestic relations order as defined under the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended ('ERISA') or the rules thereunder, and (ii) is exercisable, during the grantee's lifetime, only by the grantee and that the aggregate fair market value of the Common Stock on the date of the Grant with respect to which incentive stock options are exercisable for the first time by a grantee during any calendar year under the Plan and under any other stock option plan of the Corporation shall not exceed the limitation set forth in section 422(d) of the Code. An incentive stock option shall not be granted to any grantee who, at the time of grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation or subsidiary of the Corporation, unless the exercise price of the incentive stock option is no less than 110% of the fair market value per share on the date of grant and

the term of the incentive stock option is not more than five years. Unless a

grantee could otherwise transfer Common Stock issued pursuant to an incentive stock option granted hereunder without incurring liability under section 16(b) of the Exchange Act, at least six months must elapse from the date of acquisition of an incentive stock option to the date of disposition of the Common Stock issued upon exercise of such option.

7. RESTRICTED STOCK GRANTS

The Committee may issue or transfer shares of Common Stock of the Corporation to an eligible officer or other key employee subject to the maximum number of shares of Common Stock reserved for issuance in connection with restricted stock grants described in Section 4 of the Plan. The following provisions are applicable to restricted stock grants:

(a) General Requirements. Shares of Common Stock of the Corporation issued pursuant to restricted stock grants may be issued for consideration or for no consideration. Subject to any other restrictions by the Committee as provided pursuant to Section 7(e), restrictions on the transfer of shares of Common Stock set forth in Section 7(c) shall lapse on such date or dates as the Committee may approve until the restrictions have lapsed on 100% of the shares; provided, however, that upon a Change of Control of the Corporation, all restrictions on the transfer of the shares which have not, prior to such date, been forfeited shall immediately lapse. The period of years during which the restricted stock grant will remain subject to restrictions will be designated in the Agreement (the 'Restriction Period'). Prior to the lapse of the Restriction Period the shares of Common Stock granted to any grantee shall be held by the Corporation.

(b) Number of Shares. The Committee shall grant to each grantee a number of shares of Common Stock of the Corporation determined in its sole discretion.

(c) Requirement of Employment. If the grantee's employment terminates during the Restriction Period, the restricted stock grant terminates as to all shares covered by the Grant as to which restrictions on transfer have not lapsed, and those shares of Common Stock must be immediately returned to the Corporation. The Committee may, however, provide for complete or partial exceptions to this requirement as it deems equitable.

(d) Restrictions on Transfer and Legend on Stock Certificate. During the Restriction Period, a grantee may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Common Stock to which such Restriction Period applies except to a Successor Grantee (as defined in Section 10 of the Plan). Each certificate for a share issued or transferred under a restricted stock grant shall contain a legend giving appropriate notice of the restrictions in the Grant. The grantee shall be entitled to have the legend removed from the stock certificate or certificates covering any of the shares subject to restrictions when all restrictions on such shares have lapsed.

(e) Lapse of Restrictions. All restrictions imposed under the restricted stock grant shall lapse upon the expiration of the applicable Restriction Period; provided, however, that upon a Change of Control of the Corporation, all restrictions on the transfer of shares which have not, prior to such date, been forfeited shall immediately lapse. In addition, the Committee may determine as to any or all restricted stock grants, that all the restrictions shall lapse, without regard to any Restriction Period, under such circumstances as it deems equitable.

8. DIVIDEND EQUIVALENTS

The Committee may grant dividend equivalents to eligible officers and other key employees either alone or in conjunction with all or part of any option granted under the Plan. A dividend equivalent shall be equal to the dividend payable on a share of Common Stock of the Corporation. The amount of dividend equivalents for any grantee (the 'Dividend Equivalent Amount') is determined by multiplying the number of dividend equivalents subject to the Grant by the per-share cash dividend, or the per-share fair market value (as determined by the Committee) of any dividend in other than cash,

during the period described in Section 8(a).

(a) Amount of Dividend Equivalent Credited.

The Corporation shall credit to an account for each grantee maintained by the Corporation in its books and records on each record date, from the date of grant until the earlier of the date of (i) the end of the applicable accumulation period designated by the Committee at the time of grant, (ii) the date of the termination of employment for any reason (including retirement), other than total disability (as defined in section 22(e)(3) of the Code) or death of the grantee, or as otherwise determined by the Committee, in its sole discretion, at the time of a grantee's termination of employment or (iii) the end of a period of four years from the date of grant, that portion of the Dividend Equivalent Amount for each such grantee attributable to each record date. The Corporation shall maintain in its books and records separate accounts which identify each Grantee's Dividend Equivalent Amount. Except as set forth in Section 8(e) below, no interest shall be credited to any such account.

(b) Payment of Credited Dividend Equivalents.

The Committee, at the time of grant, shall designate the percentage of each grantee's Dividend Equivalent Amount that shall be paid to the grantee at the end of an applicable performance period (the 'Performance Period') of four years from the date of grant (the Committee, in its sole discretion, shall retain the right to designate a longer or shorter Performance Period at the time of grant); provided, however, that such Performance Period shall be:

(i) reduced by one year for each calendar year during the applicable Performance Period ending after the date of grant in which the measurable performance criteria established by the Committee at the time of grant for the applicable Performance Period exceeds the targets for such criteria established by the Committee at the time of grant.

(ii) increased by one year for each calendar year during the applicable Performance Period ending after the date of grant in which the measurable performance criteria established by the Committee at the time of grant for the applicable Performance Period is less than the targets for such criteria established by the Committee at the time of grant.

(iii) In no event shall the Performance Period be reduced to less than two years or increased to more than eight years from the date of grant.

(iv) In the event that the Performance Period is shorter than the period described in Section 8(a), a grantee shall receive the payment of the amount credited to his account at the end of the applicable Performance Period and any portion of the Dividend Equivalent Amount not yet so credited to his account shall be paid on the Corporation's normal dividend payment dates until the grantee's Dividend Equivalent Amount for the period described in Section 8(a) is fully paid to the grantee.

(c) Timing of Payment of Dividend Equivalents.

Except as otherwise determined by the Committee in the event of a grantee's termination from employment prior to the end of the applicable Performance Period, no payments of the Dividend Equivalent Amount shall be made until the end of the applicable Performance Period and no payments shall be made to any grantee whose employment by the Corporation or a subsidiary terminates prior to the end of the applicable Performance Period for any reason other than retirement under the Corporation's or a subsidiary's retirement plan, death or total disability (as defined in section 22(e)(3) of the Code). Subject to Section 8(b)(iv), as soon as practicable after the end of such Performance Period, unless a grantee shall have made an election under Section 8(f) to defer receipt of any portion of such amount, a grantee shall receive 100% of the Dividend Equivalent Amount payable to him. Notwithstanding the foregoing, upon a Change of Control of the Corporation, any Dividend Equivalent Amount or portion thereof, which has not, prior to such date, been paid to the grantee or forfeited shall immediately become payable to the grantee without regard to whether the applicable Performance Period has ended.

(d) Form of Payment. The Committee shall have the sole discretion to determine whether the Corporation's obligation in respect of the payment of a Dividend Equivalent Amount shall be paid solely in credits to be applied toward

payment of the option price under then exercisable options, solely in cash or partly in such credits and partly in cash.

(e) Interest on Dividend Equivalents. From a date which is 45 days after the end of the applicable Performance Period until the date that the Dividend Equivalent Amount payable to the grantee is paid to such grantee, the account maintained by the Corporation in its books and records with respect to such dividend equivalents shall be credited with interest at a market rate determined by the Committee.

(f) Deferral of Dividend Equivalents. A grantee shall have the right to defer receipt of any Dividend Equivalent Amount payments if he shall elect to do so on or prior to December 31 of the year preceding the beginning of the last full year of the applicable Performance Period (or such other time as the Committee shall determine is appropriate to make such deferral effective under the applicable requirements of federal tax laws). The terms and conditions of any such deferral (including the period of time thereof and any earnings on the deferral) shall be subject to approval by the Committee and all deferrals shall be made on a form provided a grantee for this purpose.

9. AGREEMENT WITH GRANTEES

Each grantee who receives a Grant under the Plan shall enter into an agreement with the Corporation which shall contain such provisions, consistent with the provisions of the Plan, as may be established from time to time by the Committee.

10. TRANSFERABILITY OF GRANTS

Only a grantee or his or her authorized legal representative may exercise rights under a Grant. Such persons may not transfer those rights except by will or by the laws of descent and distribution or, if permitted under Rule 16b-3 of the Exchange Act and if permitted in any specific case by the Committee in their sole discretion, pursuant to a qualified domestic relations order as defined under the Code or Title I of ERISA or the rules thereunder. When a grantee dies, the personal representative or other person entitled to succeed to the rights of the grantee ('Successor Grantee') may exercise such rights. A Successor Grantee must furnish proof satisfactory to the Corporation of his or her right to receive the Grant under the grantee's will or under the applicable laws of descent and distribution.

11. FUNDING OF THE PLAN

This Plan shall be unfunded. The Corporation shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under this Plan. Subject to Section 8(e), in no event shall interest be paid or accrued on any Grant, including unpaid installments of Grants.

12. RIGHTS OF GRANTEES

Nothing in this Plan shall entitle any grantee or other person to any claim or right to receive a Grant under this Plan. Neither this Plan nor any action taken hereunder shall be construed as giving any grantee any rights to be retained in the employ of the Corporation or to be retained as a consultant by the Corporation.

13. WITHHOLDING OF TAXES

The Corporation shall have the right to deduct from all Grants paid in cash any federal, state or local taxes required by law to be withheld with respect to such cash awards. The grantee or other person receiving such shares shall be required to pay to the Corporation the amount of any such taxes which the Corporation is required to withhold with respect to such Grants. With respect to Grants of restricted stock or nonqualified stock options, the Corporation shall have the right to require that the grantee make such provision, or furnish the Corporation such authorization as may be necessary or

desirable so that the Corporation may satisfy its obligation, under applicable income tax laws, to withhold for income or other taxes due upon or incident to such restricted stock or the exercise of such nonqualified stock options.

The Committee may adopt such rules, forms and procedures as it considers necessary or desirable to implement such withholding procedures, which rules, forms and procedures shall be binding upon all grantees, and which shall be applied uniformly to all grantees similarly situated.

14. LISTING AND REGISTRATION

Each Grant shall be subject to the requirement that, if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the Grant or the shares subject to the Grant upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, such Grant or the issue or purchase of shares thereunder, no such Grant may be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

15. ADJUSTMENT OF AND CHANGES IN COMMON STOCK OF THE CORPORATION.

In the event of a reorganization, recapitalization, change of shares, stock split, spin-off, stock dividend, reclassification, subdivision or combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Corporation, the Committee shall make such adjustment as it deems appropriate in the number and kind of shares authorized by the Plan, in the number and kind of shares covered by Grants made under the Plan, in the purchase prices of outstanding options or the terms and conditions applicable to dividend equivalents.

16. RIGHTS OF GRANTEEES

Neither the grantee nor any personal representative shall be, or have any of the rights and privileges of, a shareholder of the Corporation in respect of any shares related to any Grant or purchasable upon the exercise of any option, in whole or in part, unless and until certificates for such shares have been issued. Notwithstanding the foregoing, a grantee who receives a grant of restricted stock shall have all rights of a shareholder, except as set forth in Section 7(d), during the Restriction Period, including the right to vote and receive dividends.

17. CHANGE OF CONTROL OF THE CORPORATION

As used herein, a 'Change of Control' shall be deemed to have taken place if (i) any Person (including any individual, firm, corporation, partnership or other entity except the Corporation or any employee benefit plan of the Corporation or of any Affiliate or Associate, both as defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, any Person or entity organized, appointed or established by the Corporation for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the beneficial owner in the aggregate of 20% or more of the Common Stock of the Corporation then outstanding or (ii) during any twenty-four month period, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by the Corporation's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period. Notwithstanding the foregoing, a Change in Control shall not be deemed to have taken place under clause (i) of the immediately preceding sentence if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Corporation then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of

Directors of the Corporation, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (vi) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. section 2543(b)) as in effect on the date of adoption of the Plan.

18. AMENDMENT AND TERMINATION

(a) The Plan may be amended by the Board of Directors of the Corporation as it shall deem advisable to ensure such qualification and conform to any change in the law or regulations applicable thereto, including such new regulations as may be enacted pertaining to the tax treatment of incentive stock options to be granted under this Plan, or in any other respect that the Board may deem to be in the best interest of the Corporation; provided, however, that the Board may not, without the authorization and approval of the shareholders of this Corporation (i) materially increase the benefits accruing to participants under the Plan, (ii) increase the number of shares which may be issued under the Plan, except pursuant to Section 15 hereof, or (iii) materially modify the requirements as to eligibility for participation in the Plan.

The Board of Directors shall not amend the Plan if the amendment would cause the Plan or any Grant, or the exercise of any right under the Plan to fail to comply with the requirements of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, or if such amendment would cause the Plan or the Grant or exercise of an incentive stock option under the Plan to fail to comply with the requirements of section 422 of the Code including, without limitation, a reduction of the option price set forth in Section 6(a) or an extension of the period during which an incentive stock option may be exercised as set forth in Section 6(b).

(b) The Board of Directors of the Corporation may, in its discretion, terminate, or fix a date for the termination of, the Plan. Unless previously terminated, the Plan shall terminate on May 19, 2004 and no Grants shall be made under the Plan after such date.

(c) A termination or amendment of the Plan that occurs after a Grant is made shall not result in the termination or amendment of the Grant unless the grantee consents or unless the Committee acts under Section 19. The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant. Whether or not the Plan has terminated, an outstanding Grant may be terminated or amended under this Section 18 or may be amended by agreement of the Corporation and the grantee consistent with the Plan.

19. COMPLIANCE WITH LAW.

The Plan, the exercise of Grants and the obligations of the Corporation to issue or transfer shares of Common Stock under Grants shall be subject to all applicable laws, including any applicable federal or Pennsylvania state law, and to approvals by a governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, it is the intent of the Corporation that the Plan and all transactions under the Plan comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payments to grantees. The Committee may, in its sole discretion, agree to limit its authority under this Section.

20. EFFECTIVE DATE OF THE PLAN

The Plan shall be effective as of April 1, 1994, subject to the approval by a majority of the Corporation's shareholders within twelve months of such effective date. No Grant shall be made pursuant to the Plan on or after the tenth anniversary of the date of shareholder approval, but Grants made prior to such tenth anniversary may extend beyond that date.

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 1993

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

	1993	1992	1991
	-----	-----	-----
Earned revenues.....	\$ 101,244	\$ 93,307	\$ 88,648
Costs and expenses:			
Operating expenses.....	45,989	43,024	42,663
Depreciation.....	9,927	8,646	7,612
Amortization.....	1,008	800	641
Taxes other than income taxes.....	6,890	6,500	6,095
	-----	-----	-----
Operating income from continuing operations.....	63,814	58,970	57,011
Interest and debt expenses.....	37,430	34,337	31,637
Dividends on preferred stock.....	13,108	15,068	14,781
Allowance for funds used during construction.....	866	866	790
	(805)	(258)	(1,194)
	-----	-----	-----
Income from continuing operations before income taxes.....	24,261	18,661	17,260
Provision for income taxes.....	10,426	8,035	7,081
	-----	-----	-----
Income from continuing operations.....	13,835	10,626	10,179
Loss on disposition of discontinued operations, including provision in 1992 and 1991 of \$2,120 and \$2,280 for operating losses since the measurement dates, net of income tax benefits of \$2,950 and \$1,250.....	--	(5,500)	(5,000)
Loss from operations of discontinued operations prior to measurement dates, net of income tax benefits			
of \$146.....	--	--	(290)
Extraordinary charge from early retirement of debt, net of income tax benefits of \$429.....	--	(834)	--
	-----	-----	-----
Net Income.....	\$ 13,835	\$ 4,292	\$ 4,889
	-----	-----	-----
Net income (loss) per share			
Continuing operations.....	\$ 1.27	\$ 1.23	\$ 1.29
Discontinued operations.....	--	(.63)	(.67)
Extraordinary charge.....	--	(.10)	--
	-----	-----	-----
Total.....	\$ 1.27	\$.50	\$.62
	-----	-----	-----
Average common and common equivalent shares outstanding during the period....	10,858	8,635	7,910
	-----	-----	-----

See accompanying notes to consolidated financial statements.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS OF DOLLARS)

DECEMBER 31, 1993 AND 1992

	1993	1992
	-----	-----
ASSETS		
Property, plant and equipment, at cost.....	\$ 433,302	\$ 401,876
Less accumulated depreciation.....	67,072	56,266
	-----	-----
Net property, plant and equipment.....	366,230	345,610
	-----	-----
Current assets:		
Cash.....	(868)	(712)
Accounts receivable, net.....	18,131	16,460
Inventory, materials and supplies.....	1,721	1,628
Prepayments and other current assets.....	532	807
	-----	-----
Total current assets.....	19,516	18,183

Regulatory assets.....	51,229	--
Deferred charges and other assets, net.....	2,704	2,156
	<u>\$ 439,679</u>	<u>\$ 365,949</u>

LIABILITIES AND STOCKHOLDERS' EQUITY		
Common stockholders' equity:		
Common stock at par value net of \$1,257 and \$265 of Treasury shares in 1993 and 1992.....	\$ 4,526	\$ 4,693
Capital in excess of par value.....	95,918	68,994
Retained earnings.....	35,490	33,284
Total common stockholders' equity.....	<u>135,934</u>	<u>106,971</u>
Preferred stock of subsidiary with mandatory redemption.....	10,000	10,000
Long-term debt, excluding current portion.....	145,292	153,508
Commitments.....	--	--
Current liabilities:		
Current portion of long-term debt.....	4,884	8,581
Loans payable.....	819	959
Accounts payable.....	3,381	4,274
Accrued interest.....	3,439	3,597
Other accrued liabilities.....	9,269	7,647
Net reserves related to discontinued operations.....	2,578	1,642
Total current liabilities.....	<u>24,370</u>	<u>26,700</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment credits.....	69,137	15,695
Customers' advances for construction.....	24,379	25,536
Other.....	8,926	6,634
Total deferred credits and other liabilities.....	<u>102,442</u>	<u>47,865</u>
Contributions in aid of construction.....	21,641	20,905
	<u>\$ 439,679</u>	<u>\$ 365,949</u>
	-----	-----

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, 1993, 1992 AND 1991

	1993	1992	1991
	-----	-----	-----
Cash flows from operating activities:			
Income from continuing operations.....	\$ 13,835	\$ 10,626	\$ 10,179
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization.....	10,935	9,446	8,253
Deferred taxes, net of taxes on customers' advances.....	3,061	399	2,111
Net decrease (increase) in receivables, inventory and prepayments.....	(1,438)	1,584	(1,466)
Net increase in payables and other accrued liabilities.....	1,245	2,019	669
Net increase (decrease) in accrued interest.....	(158)	(927)	163
Other.....	(540)	(509)	(788)
Net cash flows from operating activities.....	<u>26,940</u>	<u>22,638</u>	<u>19,121</u>
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$805, \$258 and \$1,194.....	(27,958)	(21,719)	(22,335)
Acquisitions of water systems.....	(1,323)	(9,128)	--
Sale of businesses and related assets.....	1,665	976	13,352
Other.....	(40)	190	156
Net cash flows from investing activities.....	<u>(27,656)</u>	<u>(29,681)</u>	<u>(8,827)</u>
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction, net of income tax payments.....	2,483	3,248	2,635
Repayments of customers' advances.....	(2,904)	(2,398)	(1,832)
Net proceeds (repayments) of short-term debt.....	(140)	799	(840)
Proceeds from long-term debt.....	21,839	24,174	24,862
Repayments of long-term debt including premium on early retirement.....	(34,559)	(38,008)	(39,129)
Proceeds from issuing common stock.....	27,749	25,950	3,459
Repurchase of common stock.....	(992)	(26)	--
Proceeds from issuing preferred stock of subsidiary.....	--	--	9,865
Dividends paid.....	(11,629)	(8,866)	(7,859)
Other.....	(104)	--	(62)
Net cash flows from financing activities.....	<u>1,743</u>	<u>4,873</u>	<u>(8,901)</u>
Net cash flows from discontinued operations.....	<u>(1,183)</u>	<u>(1,537)</u>	<u>300</u>
Net increase (decrease) in cash.....	<u>(156)</u>	<u>(3,707)</u>	<u>1,693</u>

Cash balance (deficit) beginning of year.....	(712)	2,995	1,302
Cash balance (deficit) end of year.....	\$ (868)	\$ (712)	\$ 2,995

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

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The business of Philadelphia Suburban Corporation ('PSC' or the 'Company') is conducted almost entirely through its subsidiary, Philadelphia Suburban Water Company, a regulated public utility. All material intercompany accounts and transactions have been eliminated.

Recognition of Revenues

Utility 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.

Nonutility revenues include amounts billed to customers and amounts accruable under contract terms.

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, allowable overheads and, for certain utility plant, allowance for funds used during construction. Utility expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the Uniform System of Accounts prescribed by the Pennsylvania Public Utility Commission ('PUC'). 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. The straight-line method is used with respect to transportation and mechanical equipment and nonutility plant and equipment.

Allowance for Funds Used During Construction

The allowance for funds used during construction ('AFUDC') represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds was \$338, \$147 and \$730 in 1993, 1992 and 1991, respectively.

Deferred Charges

Deferred bond and preferred stock 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 of the utility, 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.

The cost of purchased software that is used within the Company is amortized using the straight-line method over five years.

Expenses associated with filing for rate increases are deferred and amortized over the estimated period the rates will be in effect, approximately one year.

Income Taxes

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, 'Accounting for Income Taxes' ('SFAS 109'). SFAS 109 requires a change from the deferred method of accounting for income taxes of Accounting Principles Board Opinion ('APB') 11 to the asset and liability method of accounting for income taxes. The asset and liability method requires the recognition of deferred tax liabilities and assets for the expected future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their tax carrying values.

Deferred taxes were not previously provided under APB 11 for those temporary differences for which the tax effects were flowed through to the ratepayer. The cumulative effect of the change in accounting for income taxes resulted in a significant increase in deferred tax liabilities for the water utility. However it did not have a material effect on net income since the increase in deferred taxes was offset by increases to a regulatory asset and utility plant.

Customers' Advances for Construction

Advances are received from customers, real estate developers and builders principally for construction of water main extensions and are refundable as operating revenues are earned or as new customers are connected after the completion of construction. After all refunds are made, any remaining balance is transferred to contributions in aid of construction.

Contributions in Aid of Construction

Contributions in aid of construction include direct contributions and the portion of customers' advances for construction which become nonrefundable.

Inventories, Materials and Supplies

Inventories are stated at average cost, not in excess of market value.

Acquisitions

In December 1993, the water utility acquired the franchise rights and the water utility assets of the Borough of Malvern for \$1,323 in cash. This water supply system serves approximately 859 metered customers in a one square mile area surrounded by the water utility's existing service territory. Assets acquired consist primarily of utility plant in service and have been classified in the accompanying consolidated financial statements on a net basis as property, plant and equipment pending final allocation. Revenues in 1993 of the acquired water supply system amounted to approximately \$250.

In November 1993, the water utility submitted a proposal to purchase the water utility assets of a municipally-owned water system for a purchase price in excess of \$20,000. The municipality is presently evaluating the water utility's proposal, versus one other that it has received, and expects to select the successful bidder sometime in 1994. The municipal water system serves approximately 13,000 customers over a 23-square-mile service area contiguous to the water utility's service territory. Annual revenues from this system approximate \$4,500.

In December 1992, the water utility acquired the franchise rights and the water utility assets of the West Whiteland Township and the Uwchlan Township Municipal Authority water systems for \$9,128

in cash and issuance of a \$1,777 9% installment note. These water supply systems serve approximately 6,900 metered customers in a 40-square-mile area contiguous to the water utility's service territory. Assets acquired consist primarily of utility plant in service. Revenues included in the consolidated

financial statements related to the acquired water supply systems amounted to approximately \$2,052 in 1993.

Discontinued Operations

The Board of Directors authorized the sale of substantially all of the Company's nonregulated businesses. The decision to sell Mentor Information Systems, Inc., Digital Systems, Inc., Stoner Associates, Inc., Kesler Engineering, Inc. and American Tele/Response Group, Inc. occurred in September 1990 and the decision to sell PSC Engineers & Consultants, Inc. occurred in March 1991 (the measurement dates). During 1991, all these businesses were sold except for American Tele/Response Group, Inc. and Kesler Engineering, Inc., which were sold in the first quarter of 1993. The sale of the two companies in 1993 had no impact on the results of operations in 1993.

As a result of deterioration in the operating results and backlog of future work at the remaining businesses for sale during 1992, and a substantial reduction in the estimated net proceeds from the ultimate disposition of the businesses, a charge of \$5,500 was taken in the third quarter of 1992 to reflect the Company's revised estimate of the ultimate loss on the disposition of these businesses. In the third quarter of 1991, a similar charge of \$5,000 was taken to reflect the then current estimate as to the ultimate outcome of the Company's divestiture effort. Both charges were based on estimates which considered the facts and circumstances known at the time the charges were taken, and included projections of operating results through the expected disposition dates and estimates of the net proceeds from the dispositions. Delays in finding suitable buyers, further deterioration in operating performance and the resulting decline in the estimated net proceeds from the disposition were the most significant variations from the Company's previous projections as to the ultimate results of the divestiture efforts. The timing and the net proceeds from the disposition of the remaining two businesses and the operating losses during the period they were owned by the Company were within the estimated reserves established in the third quarter of 1992 and the Company does not foresee the need for any further charges to income related to discontinued operations.

Reserves related to discontinued operations cover future costs associated with these operations, including administrative, legal and tax services, contingent legal and lease obligations and certain employee costs. The notes to the consolidated financial statements relate to continuing operations, except where otherwise indicated.

Financial information on the discontinued operations is as follows:

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
Revenues.....	\$ 654	\$ 10,693	\$ 35,181
Operating expenses.....	1,783	13,163	38,839
Operating loss before income taxes.....	(1,129)	(2,470)	(3,658)
Income tax benefits.....	(378)	(771)	(1,203)
Operating loss.....	(751)	(1,699)	(2,455)
Provision for loss on disposal.....	751	(3,801)	(2,835)
Loss from discontinued operations.....	\$ --	\$ (5,500)	\$ (5,290)

Due to the sales of the companies during 1993 and 1991, the operating results of the discontinued operations are not comparable for the three years presented, since the operating results of the businesses sold are included only for the periods prior to their sale.

Operating expenses of the discontinued operations reflect allocated interest charges of \$271 and \$1,162 in 1992 and 1991, and other costs of \$773, \$228 and \$1,697, which were specifically associated with these operations in 1993, 1992 and 1991, respectively. The effective tax rates of the discontinued operations differ from statutory rates primarily because of the nondeductibility of goodwill amortization in computing the taxable loss.

Income Taxes

As noted in the Summary of Significant Accounting Policies footnote, the Company adopted SFAS 109 as of January 1, 1993. Adoption of this standard resulted in a net increase in deferred tax liabilities as of January 1, 1993 of \$47,399 which reflects deferred taxes that had previously not been recorded by the water utility. Offsetting the net increase in deferred tax liabilities is a regulatory asset of \$46,480 and an increase in utility plant of \$919. The regulatory asset represents the expected recovery through future water rates of the reversal of deferred taxes and investment tax credits. The increase in utility plant reflects the interest component of AFUDC that was previously accounted for net of tax. Consequently, there is no cumulative effect of this change in the Consolidated Statement of Income for the year ended December 31, 1993. Prior years' financial statements have not been restated.

Total income tax expense for the year ended December 31, 1993 is allocated as follows:

Income from continuing operations.....	\$10,426
Common stockholders' equity related to stock option activity which reduces taxable income.....	(65)

	\$10,361

Income tax expense attributable to income from continuing operations consists of:

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
	-----	-----	-----
Current:			
Federal.....	\$ 4,538	\$ 5,273	\$ 4,312
State.....	2,879	2,401	1,959
	-----	-----	-----
	7,417	7,674	6,271
	-----	-----	-----
Deferred:			
Federal.....	3,377	500	1,203
State.....	(368)	(139)	(393)
	-----	-----	-----
	3,009	361	810
	-----	-----	-----
Total tax expense.....	\$ 10,426	\$ 8,035	\$ 7,081
	-----	-----	-----
	-----	-----	-----

The significant components of deferred income tax expense are as follows:

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
	-----	-----	-----
Excess of tax over financial statement depreciation.....	\$ 2,112	\$ 2,009	\$ 1,705
Amortization of deferred investment tax credits.....	(152)	(151)	(149)
Current year investment tax credits deferred.....	93	133	121
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation.....	889	466	595
Customers' advances for construction, net.....	(934)	(678)	(846)
Effect of change in tax accounting method.....	--	(866)	--
Adjustment to deferred tax assets and liabilities for enacted changes in the Federal tax rate.....	2,120	--	--
Adjustment to recognize future rate recovery.....	(2,116)	--	--
Other, net.....	997	(552)	(616)
	-----	-----	-----
Total deferred income tax expense.....	\$ 3,009	\$ 361	\$ 810
	-----	-----	-----

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before Federal tax and the actual Federal tax expense are as follows:

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
Computed Federal tax expense at statutory rate.....	\$ 7,613	\$ 5,576	\$ 5,336
Increase (decrease) in tax expense for items to be recovered in future rates:			
Depreciation expense.....	151	126	(135)
Losses on asset disposals.....	(49)	(67)	(63)
Costs capitalized for book, expensed for tax, net.....	--	--	389
Amortization of deferred investment tax credits.....	(153)	(151)	(149)
Preferred stock dividend.....	303	294	268
Adjustment to deferred tax assets and liabilities for enacted changes in the Federal tax rate.....	2,120	--	--
Adjustment to recognize future rate recovery.....	(2,116)	--	--
Other, net.....	46	(5)	(131)
Actual Federal tax expense.....	\$ 7,915	\$ 5,773	\$ 5,515

During 1992, the Company filed an application with the Internal Revenue Service ('IRS') to change its tax accounting method with respect to interest and overhead costs capitalized on utility plant construction. This application, which was approved by the IRS, was made in order to place the Company in full compliance with the uniform capitalization rules of the Internal Revenue Code, which rules were enacted as part of the Tax Reform Act of 1986. As a result of this change, the Company amended its 1991 tax returns to incorporate this change for all utility plant constructed since 1986 and increased its taxable income for 1991 by \$2,548, the cumulative impact of the change on all prior years. While the result of this change increased current tax expense by \$1,073 in 1992, the Federal tax portion was offset by a deferred tax benefit of \$866. Since the PUC does not allow the recovery of deferred state income taxes through rates, \$312 of additional state income taxes were recorded, which increased the Company's effective tax rate in 1992 by 1.2%.

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The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities at December 31, 1993 are as follows:

Deferred tax assets:	
Customers' advances for construction.....	\$8,851
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves.....	845
Other.....	386
Total gross deferred tax assets.....	10,082
Less valuation allowance.....	--
Net deferred tax assets.....	10,082
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.....	54,269
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences.....	19,864
Deferred investment tax credit.....	4,500
Other.....	586
Total gross deferred tax liabilities.....	79,219
Net deferred tax liability.....	\$69,137

At December 31, 1992 and 1991, the Company's deferred tax liabilities were \$15,695 and \$15,464, respectively.

The Company made income tax payments, which include amounts related to discontinued operations, of \$7,786, \$5,134 and \$5,335 in 1993, 1992 and 1991, respectively. The Company's Federal income tax returns for all years through

1987 have been closed.

Accounts Receivable

	DECEMBER 31,	
	1993	1992
Billed water revenue.....	\$ 7,299	\$ 7,315
Unbilled water revenue.....	10,531	9,227
Nonutility revenue.....	501	118
	18,331	16,660
Less allowance for doubtful accounts.....	200	200
Net accounts receivable.....	\$ 18,131	\$ 16,460

All of the Company's customers are located in southeastern Pennsylvania. No single customer accounted for more than five percent of the Company's sales in 1993 or 1992 and no account receivable from any customer exceeded five percent of the Company's total stockholders' equity.

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Property, Plant and Equipment

	DECEMBER 31,	
	1993	1992
Utility plant and equipment.....	\$ 428,737	\$ 390,138
Utility construction in progress.....	2,307	9,343
Nonutility plant and equipment.....	2,258	2,395
Total property, plant and equipment.....	\$ 433,302	\$ 401,876

Depreciation is computed based on estimated useful lives of 5 to 110 years for utility plant and 3 to 10 years for both utility transportation and mechanical equipment, and all nonutility plant and equipment.

Utility plant and equipment at December 31, 1993 includes the net assets of the water system acquired in December 1993.

Regulatory Asset

A regulatory asset was established in 1993 in recognition of the expected recovery through future water rates of the additional liabilities associated with the adoption of Statement of Financial Accounting Standards No. 106 'Employers' Accounting for Postretirement Benefits Other Than Pensions' ('SFAS 106') and SFAS 109 'Accounting for Income Taxes'. The components of the regulatory assets as of December 31, 1993 are as follows:

Income Taxes.....	\$49,533
Postretirement Benefits other than Pensions.....	1,696

	\$51,229

Commitments

The water utility maintains agreements with the Chester Water Authority and the Bucks County Water and Sewer Authority for the purchase of water in order to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2017. The estimated annual commitments related to such purchases total approximately \$2,637 through 1998. The water utility purchased approximately \$2,922 \$2,649 and \$3,006 of water under these agreements during the years ended December 31, 1993, 1992 and 1991, respectively.

The water utility leases motor vehicles and other equipment under operating leases which are noncancellable and expire on various dates through 1997. During the next five years, \$1,191 of future minimum lease payments are due: \$768 in 1994, \$314 in 1995, \$108 in 1996, and \$1 in 1997. Rent expense was \$1,134 \$1,019 and \$927 for the years ended December 31, 1993, 1992 and 1991, respectively.

Long-term Debt and Loans Payable

	DECEMBER 31,	
	1993	1992
First Mortgage Bonds secured by utility plant:		
6.875% Series, due 1993 (a).....	\$ --	\$ 4,500
4.550% Series, due 1994 (a).....	4,000	4,000
10.125% Series, due 1995 (b).....	--	4,400
5.500% Series, due 1996 (a).....	4,000	4,000
7.875% Series, due 1997 (a).....	5,000	5,000
8.440% Series, due 1997 (c).....	12,000	12,000
9.200% Series, due 2001 (b).....	--	3,150
8.400% Series, due 2002 (b).....	5,050	5,500
5.950% Series, due 2002 (b).....	3,600	4,000
12.450% Series, due 2003 (b).....	--	10,000
13.000% Series, due 2005 (b).....	8,000	8,000
10.650% Series, due 2006 (b).....	10,000	10,000
9.890% Series, due 2008 (c).....	5,000	5,000
7.150% Series, due 2008 (b).....	22,000	--
9.120% Series, due 2010 (c).....	20,000	20,000
6.500% Series, due 2010 (b).....	3,200	3,200
9.170% Series, due 2011 (c).....	5,000	5,000
9.930% Series, due 2013 (c).....	5,000	5,000
9.970% Series, due 2018 (c).....	5,000	5,000
9.170% Series, due 2021 (b).....	8,000	8,000
9.290% Series, due 2026 (c).....	12,000	12,000
Total First Mortgage Bonds.....	136,850	137,750
Note payable to bank under revolving credit agreement, due February 1994.....	11,580	20,062
Revenue note, 9.5%, due December 1993.....	--	2,500
Installment note payable, 9%, due in equal annual payments through December 2013.....	1,746	1,777
	150,176	162,089
Current portion of long-term debt.....	4,884	8,581
Long-term debt, excluding current portion.....	\$ 145,292	\$ 153,508
Proforma weighted cost of long-term debt at December 31,.....	8.4%	8.6%

- (a) Provisions of the water utility's trust indenture and supplements thereto relating to these First Mortgage Bonds require sinking fund payments amounting to 1/2 of 1% of the maximum aggregate principal amount of these bonds outstanding. These sinking fund payments may be deferred until final maturity by certification to the Trustee of the net amount of available permanent additions to utility plant. All prior sinking fund requirements have been deferred by such certification and it is expected that they will be deferred in the same manner for the next five years.
- (b) The supplemental trust indentures relating to these First Mortgage Bonds require annual sinking fund payments.
- (c) The supplemental trust indentures relating to these First Mortgage Bonds require no annual sinking fund payments.

The supplemental indentures with respect to certain issues of the Bonds restrict the ability of the water utility to declare dividends, in cash or

property, or repurchase or otherwise acquire the water utility's stock. As of December 31, 1993, approximately \$51,000 of retained earnings were free of these restrictions. Certain supplemental indentures also prohibit the water utility from making loans to or purchasing the stock of the Company.

Except for the amounts due under the water utility's revolving credit agreement, the Company's sinking fund payments and debt maturities for the next five years are as follows:

	1994	1995	1996	1997	1998
Sinking fund payments, net of expected deferrals.....	\$ 850	\$ 850	\$ 1,650	\$ 2,650	\$ 4,650
Maturities.....	4,034	37	4,040	17,044	48
Total.....	\$ 4,884	\$ 887	\$ 5,690	\$ 19,694	\$ 4,698

In April 1993, the water utility issued \$22,000 First Mortgage Bonds 7.15% Series due 2008. Proceeds from this issue were used to fund the 1993 retirement of the First Mortgage Bonds noted below and to repay amounts outstanding under the water utility's revolving credit agreement. In June 1992, the water utility issued \$7,200 of First Mortgage Bonds in two series: \$4,000 5.95%, due 2002 and \$3,200 6.5%, due 2010. The proceeds from these bonds were used to retire \$7,200 First Mortgage Bonds 8.875% Series due 2010, at a premium of 2% or \$144. The unamortized bond issuance expenses related to the 1992 retirements were \$90.

In May 1993, the water utility retired \$4,400 First Mortgage Bonds 10.125% Series due 1995 and \$3,150 First Mortgage Bonds 9.2% Series due 2001 at premiums of .447% or \$20 and 3.07% or \$97, respectively. In August 1993, the water utility retired \$10,000 First Mortgage Bonds 12.45% Series due 2003 at a premium of 5.12% or \$512. The unamortized bond issuance expenses related to the 1993 retirements were \$28. The premiums paid on the early retirement of debt, along with the related unamortized bond issuance expense, were capitalized and are being amortized, in accordance with the Uniform System of Accounts prescribed by the PUC, over the life of the long-term debt used to fund the redemption.

The water utility has a \$22,000 revolving credit agreement due February 1994. The agreement had been amended to temporarily increase the available borrowings under this facility by \$10,000 from August 1992 to April 1993 when proceeds were received from the issuance of bonds. Interest under this facility is based, at the water utility's option, on the prime rate, an adjusted federal funds rate, an adjusted certificate of deposit rate corresponding to the interest period selected or an adjusted Euro-Rate corresponding to the interest period selected. A commitment fee of 1/4 of 1% is charged on the unused portion of the loan. The average cost of borrowing under this facility was 4.0 and 4.2%, and the average borrowing was \$11,723 and \$9,011 during 1993 and 1992, respectively.

In February 1994, the water utility replaced its expiring revolving credit facility with a \$30,000 revolving credit agreement due March 1998. The terms of the new facility and the interest rate selection are substantially the same as the expiring facility. This agreement restricts the total amount of short-term borrowings of the water utility. A commitment fee of 1/8 of 1% is charged on the unused portion of the loan. The note payable to banks under the existing revolving credit agreement has been classified as long-term debt since funds under this new facility will be used to repay amounts outstanding under the existing facility.

In 1992, a 9% installment note payable for \$1,777 was issued in connection with the acquisition of the water utility assets of the Uwchlan Township Municipal Authority. This note requires annual payments of \$191 which consist of both principal and interest.

During 1992, the Company retired \$25,000 of the 10.125% Debentures due July 1998 at a premium of 4.27% or \$1,068. The premium, plus the write-off of the associated bond issuance expense of \$195, net of income tax benefits of \$429, have been classified as an extraordinary charge in the Company's Consolidated Statements of Income.

At December 31, 1993 and 1992, the Company and the water utility had short-term lines of credit totaling \$4,000. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was \$393 and \$686 during 1993 and 1992, respectively. The maximum amount outstanding at the end of any one month was \$819 in 1993 and \$2,190 in 1992. Borrowings are at the lesser of the prime rate or an adjusted federal funds rate. In 1993 and 1992, a commitment fee of 1/4 of 1% was charged on the unused portion of the lines of credit. The average cost of borrowings under all lines during 1993 and 1992 was 4.4% and 4.9%, respectively.

The total amount of interest paid on all borrowings, net of amounts capitalized, was \$13,327, \$16,876 and \$15,184 in 1993, 1992 and 1991, respectively.

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities which are considered financial instruments approximates their fair value as of the dates presented. The carrying amounts and estimated fair values of the Company's long-term financial liabilities as of December 31, 1993 are as follows:

	CARRYING AMOUNT		ESTIMATED FAIR VALUE
	-----		-----
Long-term debt.....	\$ 150,176	\$	177,562
Preferred stock of subsidiary with mandatory redemption.....	10,000		11,126

The fair value of long-term debt and preferred stock has been determined by discounting their future cash flows using current market interest or dividend rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have carrying values of \$24,379 and \$6,179, respectively at December 31, 1993. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest-bearing instruments are payable annually through 2014, 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 of Subsidiary with Mandatory Redemption

In February 1991, the water utility issued 100,000 shares of 8.66% Series 1 Cumulative Preferred Stock, at par value of \$100 per share in a private placement. Dividends of this issuance are payable quarterly and are cumulative. These shares are subject to mandatory redemption through an annual sinking fund equal to the par value of 14,285 shares plus accrued dividends starting in 1995 and ending in 2001. The sinking fund requirements may be met by a direct redemption of outstanding shares at par value plus any accrued dividends. The water utility has the right to redeem all or a portion of the preferred stock at a price above par beginning in 1995. Under the terms of the Stock Purchase Agreement, the water utility may not pay dividends on its common stock unless provision has been made for payment of the preferred dividends. As of December 31, 1993, all preferred dividends have been provided for. The water utility is authorized to issue up to 1,000,000 shares of preferred stock, with stated par value, in one or more series.

Net Income per Share and Equity per Common Share

Net income per share is based on the weighted average number of common and dilutive common equivalent shares outstanding during the year. Common equivalent shares arise from stock options.

Equity per common share was \$11.89 and \$10.88 at December 31, 1993 and 1992, respectively. These amounts were computed by dividing common stock-holders' equity by the number of shares of common stock outstanding at the end of each year.

Common Stockholders' Equity

At December 31, 1993, the Company had 20,000,000 shares of common stock authorized; par value \$.50. Shares outstanding at December 31, 1993, 1992 and 1991 were 11,429,968, 9,831,824 and 8,034,496, respectively. Treasury shares held at December 31, 1993, 1992 and 1991 were 135,472, 83,837 and 82,154, respectively.

At December 31, 1993, the Company had 1,770,819 shares of authorized but unissued Series Preferred Stock, \$1.00 par value.

	COMMON STOCK	TREASURY STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	TOTAL
Balance at December 31, 1990.....	\$ 3,931	\$ (177)	\$ 40,874	\$ 40,828	\$ 85,456
Net income.....	--	--	--	4,889	4,889
Dividends.....	--	--	--	(7,859)	(7,859)
Sale of stock.....	121	--	3,196	--	3,317
Executive Incentive Award Plan.....	--	(62)	(262)	--	(324)
Exercise of stock options.....	6	--	136	--	142
Balance at December 31, 1991.....	4,058	(239)	43,944	37,858	85,621
Net income.....	--	--	--	4,292	4,292
Dividends.....	--	--	--	(8,866)	(8,866)
Sale of stock.....	869	--	24,322	--	25,191
Repurchase of stock.....	--	(26)	--	--	(26)
Exercise of stock options.....	31	--	728	--	759
Balance at December 31, 1992.....	4,958	(265)	68,994	33,284	106,971
Net income.....	--	--	--	13,835	13,835
Dividends.....	--	--	--	(11,629)	(11,629)
Sale of stock.....	759	--	25,111	--	25,870
Repurchase of stock.....	--	(992)	--	--	(992)
Exercise of stock options.....	66	--	1,813	--	1,879
Balance at December 31, 1993.....	\$ 5,783	\$ (1,257)	\$ 95,918	\$ 35,490	\$ 135,934

In April 1993, the Company issued 1,100,000 shares of its common stock through a public offering, resulting in proceeds of \$18,331, net of expenses. The proceeds of the offering and the stock plans described below were used by the Company to fund \$29,000 of equity investments in the water utility during 1993.

The Company has a Customer Stock Purchase Plan for the water utility's customers, and a Dividend Reinvestment and Optional Stock Purchase Plan for existing shareholders. Shares of common stock are sold at a five percent discount from the current market value under the Dividend Reinvestment Plan. Under these plans, 417,501, 1,737,461 and 243,019 shares of common stock were sold providing the

Company with \$7,539, \$25,191 and \$3,317 of additional capital, after expenses, during 1993, 1992 and 1991, respectively.

In August 1993, the Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 250,000 shares of its common stock in the open market or through privately negotiated transactions. The number of shares purchased by the Company, if any, is limited to the number of shares sold under its Employee Stock Option Plans, Customer Stock Purchase Plan or Dividend Reinvestment and Optional Stock Purchase Plan. The purchase of shares has been authorized in order to offset the dilutive effect on earnings per share of issuances of additional shares under these plans. Funding for any stock purchases is not expected to have a material impact on the Company's financial position. During 1993, 51,635 shares have been purchased at a net cost of \$992.

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 25% 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 30% 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 25% 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 \$.02 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 1998, unless previously redeemed.

Employee Stock Plans

The 1982 Stock Option Plan, which was terminated effective March 1988, was, and the 1988 Stock Option Plan is intended to provide officers and other key employees of the Company and its subsidiaries with an incentive in the form of a proprietary interest in the Company. These plans provide for the granting of qualified and nonqualified options to purchase the Company's common stock at not less than 100% of the market price on the day of grant. No additional grants may be made from the 1982 plan; 425,000 shares were reserved for grants under the 1988 plan. Generally, options are exercisable in installments of 20% 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 both the 1982 and 1988 Plans:

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
Options granted.....	128,000	130,000	26,000
Options terminated.....	(95,100)	(2,500)	(183,800)
Options exercised.....	(136,800)	(61,550)	(11,500)
Net change.....	(103,900)	65,950	(169,300)
Balance of shares under option.....	384,300	488,200	422,250

Options exercised during 1993 ranged in price from \$11.46 per share to \$15.63 per share. The shares under option at December 31, 1993 are exercisable at prices ranging from \$12.88 to \$17.13 per share. At December 31, 1993, 122,740 shares were exercisable, and 500 options were available for grant.

The Executive Incentive Award Plan, as amended, awarded key executives and senior managers incentive bonuses by allowing them to purchase a specified number of shares of common stock at par value. Awards under the plan are subject to vesting restrictions, generally five years from the date of issue. The plan expired by its terms on December 31, 1991, but one previous grant remains outstanding. At December 31, 1993 and 1992, 10,000 shares of stock were subject to vesting restrictions.

Pension Plans and Other Postretirement and Postemployment Benefits

The Company has defined benefit pension plans which cover the majority of all full-time employees. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. As a result of certain limitations imposed by the Internal Revenue Code with respect to payments under qualified

plans, the Company, in 1989, adopted a nonqualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has a Supplemental Executive Retirement Plan for two employees. The net pension costs and obligations of these plans are included in the tables which follow.

The Company's pension expense includes the following components:

	YEARS ENDED DECEMBER 31,		
	1993	1992	1991
Benefits earned during the year.....	\$ 1,062	\$ 897	\$ 1,193
Interest cost on projected benefit obligation.....	3,026	2,758	2,838
Actual return on plan assets.....	(4,989)	(2,571)	(9,094)
Net amortization and deferral.....	1,643	(764)	6,223
Capitalized costs.....	(69)	--	(228)
Rate-regulated adjustment.....	(375)	(320)	465
Net pension cost.....	\$ 298	\$ --	\$ 1,397

The rate-regulated adjustment set forth above is required in order to reflect pension expense for the water utility in accordance with the method used in establishing the current water rates.

The assets and obligations of the plans are as follows:

	DECEMBER 31,	
	1993	1992
Accumulated benefit obligation:		
Vested.....	\$ 32,869	\$ 27,192
Nonvested.....	1,892	1,608
Total.....	\$ 34,761	\$ 28,800
Projected benefit obligation.....	\$ 43,551	\$ 36,628
Plan assets at fair value, primarily equity and fixed income commingled funds.....	41,744	38,031
Plan assets in excess of (less than) projected benefit obligation.....	(1,807)	1,403
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in assumptions.....	948	(1,385)
Unrecognized prior service cost.....	533	477
Rate-regulated adjustment.....	(328)	(1,144)
Unrecognized net obligation.....	718	837
Prepaid pension costs included in other current assets.....	\$ 64	\$ 188

The accumulated benefit obligation represents the actuarial present value of benefits based on historical compensation and historical years of service. The projected benefit obligation represents the actuarial present value of benefits based on future projected compensation levels and historical years of service. The unrecognized net obligation is being amortized over 15 years starting January 1986 and the unrecognized prior service cost is being amortized over 14 years starting January 1990.

The accumulated and projected benefit obligations were calculated using the projected unit credit method, and reflect the following assumptions: discount

rates of 7.00% for 1993, 8.00% for 1992 and 8.25% for 1991; increase in future compensation levels of 5.5% for 1993 and 6.5% for 1992 and 1991; and long-term rate of return on assets of 10% for 1993, 1992 and 1991.

In addition to providing pension benefits the water utility offers certain Postretirement Benefits other than Pensions ('PBOPs') to employees retiring with at least 15 years of service. These PBOPs include continuation of medical and prescription drug benefits for all eligible retirees and a life insurance policy for eligible union retirees.

In 1993, the water utility amended its postretirement medical and prescription drug benefits for non-union employees adopting a graduated eligibility schedule applicable to employees who had not met the eligibility requirements of 15 years of service and at least 55 years of age to participate in the plan as of December 31, 1993. Additionally, the 1993 amendments shift the burden of excessive future medical inflation to such non-eligible employees as the water utility's contribution toward the benefits is limited to a medical inflation rate of no more than 5% per year.

In January 1993, the Company adopted SFAS 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions'. Under SFAS 106, the cost of PBOPs is recognized on an accrual basis as employees perform services for the Company. Prior to 1993, the costs for these benefits were recognized on a cash, or 'pay-as-you-go' basis.

As of January 1, 1994, the Company's Accumulated Postretirement Benefit Obligation ('APBO') related to SFAS 106 was approximately \$15,580. The annual 1993 PBOP costs computed

under SFAS 106 are \$2,260, which include a 20-year amortization of the Company's APBO and \$564 of 'pay-as-you-go' costs. The Company's 1992 and 1991 PBOP costs computed under the 'pay-as-you-go' method were \$511 and \$446, respectively. Costs computed under SFAS 106 for 1993 included the following components:

	1993

Benefits earned during the period.....	\$ 325
Interest cost.....	1,192
Amortization of APBO.....	743

Gross PBOP cost.....	2,260
Adjustment to recognize future rate recovery.....	(1,696)

Net PBOP cost.....	\$ 564

The water utility's current water rates include recovery of PBOP costs on the 'pay-as-you-go' basis. In November, 1993, the PUC approved deferral of the water utility's incremental SFAS 106 costs until such time as they are included in the Company's base rates. In granting this approval, the PUC declared the regulatory asset recorded pursuant to their decision allowable for ratemaking purposes in Pennsylvania and concluded that the water utility was allowed to make a claim to recover in rates both the annual SFAS 106 costs and the regulatory asset. These acknowledgements, coupled with the PUC's 1993 actions to approve SFAS 106 costs in other utility rate proceedings, provide sufficient basis for the establishment of a regulatory asset in accordance with Statement of Financial Accounting Standards No. 71, 'Accounting for the Effects of Certain Types of Regulation' and the Financial Accounting Standards Board's ('FASB') Emerging Issues Task Force consensus position. Accordingly, a regulatory asset has been established for such deferrals. As a result, the adoption of SFAS 106 has had no effect on the Company's results of operations for 1993 and the Company does not expect the adoption of this standard to have a significant impact on future period operating results. In December 1993, the water utility initiated a base rate filing with the PUC requesting, among other things, recovery through water rates of its PBOP costs computed under SFAS 106, including a five-year amortization of the SFAS 106 costs it has recorded as a

regulatory asset. The Pennsylvania Office of Consumer Advocate has appealed other utility rate decisions to the Commonwealth Court, when the PUC allowed rate recovery of the utility's incremental SFAS 106 costs. If the Court should reverse the PUC decision, the Company's 1994 SFAS 106 expense and all amounts previously deferred would likely be charged to expense, reducing 1994 net income by approximately \$1,900.

The APBO and the 1993 PBOP costs are calculated utilizing the following assumptions: discount rate of 7%; medical inflation rates of 12%, reducing to 5% in 1994 for those employees not eligible by December 31, 1993, and to 4.5% by 2002 for all others; and no return on plan assets. The effect of a 1% increase in the assumed medical inflation rates would be to increase the APBO and the 1993 PBOP costs by \$1,940 and \$196, respectively.

The Company has not begun funding its SFAS 106 liability and expects to do so in conjunction with the inclusion of these costs in water rates, anticipated in the third quarter of 1994.

In November 1992, FASB issued Statement of Financial Accounting Standards No. 112 'Employers' Accounting for Postemployment Benefits' ('SFAS 112'). Under SFAS 112, the cost of postemployment benefits must be recognized on an accrual basis as employees perform services for the Company. The costs for these benefits are currently recognized at the time they are paid. Many of the provisions and concepts of SFAS 112 are similar to current standards on accounting for pensions and postretirement benefits. Historically, the Company has experienced minimal postemployment medical costs and the Company has already established adequate reserves for other costs which are accruable

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under this standard. Consequently, the implementation of SFAS 112 in the first quarter of 1994 is expected to have little or no impact on the results of operations or financial position of the Company.

Water Rates

The water utility filed an application with the PUC on December 3, 1993 requesting a \$14,000 or 14% increase in annual revenues. This application is currently pending before the PUC and a final determination is anticipated before September 1994.

The water utility has been granted rate increases of 7.4% and 7.7% effective June 1, 1993 and October 18, 1991, respectively. These increases were calculated to provide annual revenues of approximately \$6,750 and \$6,530, respectively. In addition to the general rate increases, the water utility, in August 1991, was permitted to add a surcharge to its bills in order to recover costs associated with Pennsylvania tax rate increases. The surcharge generated additional revenue of \$706, \$2,281 and \$1,292 in 1993, 1992 and 1991, respectively. Effective June 1, 1993, the Company no longer added the surcharge to its bills as the appropriate costs were included in the water rates which took effect on that date.

Selected Quarterly Financial Data (Unaudited)

	1993				
	FIRST	SECOND	THIRD	FOURTH	TOTAL YEAR
Earned revenues.....	\$ 22,726	\$ 25,048	\$ 27,948	\$ 25,522	\$ 101,244
Operating expenses.....	10,733	11,205	12,078	11,973	45,989
Net income.....	2,587	3,604	4,257	3,387	13,835
Net income per share.....	.26	.33	.38	.30	1.27
Dividend paid per share.....	.26	.27	.27	.27	1.07
Price range of common stock					
- high.....	18.25	18.38	20.75	20.13	20.75
- low.....	15.63	17.25	18.13	17.75	15.63
	1992				
Earned revenues.....	\$ 22,925	\$ 23,236	\$ 24,175	\$ 22,971	\$ 93,307
Operating expenses.....	10,875	10,594	11,151	10,404	43,024
Income, continuing operations.....	2,102	2,628	3,071	2,825	10,626
Income per share, continuing operations.....	.26	.32	.35	.30	1.23
Loss, discontinued operations.....	--	--	(5,500)	--	(5,500)

Loss per share, discontinued operations.....	--	--	(.63)	--	(.63)
Extraordinary charge.....	--	--	(784)	(50)	(834)
Extraordinary charge per share.....	--	--	(.09)	(.01)	(.10)
Net income (loss).....	2,102	2,628	(3,213)	2,775	4,292
Net income (loss) per share.....	.26	.32	(.37)	.29	.50
Dividend paid per share.....	.26	.26	.26	.26	1.04
Price range of common stock					
- high.....	16.00	14.88	16.38	16.63	16.63
- low.....	14.38	13.75	14.25	15.63	13.75

High and low prices of the Company's common stock are as traded on the New York Stock Exchange.

MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1993, 1992 and 1991 were prepared by management in accordance with generally accepted accounting principles and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility and dissemination of policies and procedures.

The Company's independent auditors, KPMG Peat Marwick, provide an independent review of management's reporting of results of operations and financial condition. KPMG Peat Marwick has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is composed of three outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1993.

Nicholas DeBenedictis
Chairman and President

Michael P. Graham
Senior Vice President -- Finance
and Treasurer

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income, and cash flows for each of the years in the three-year period ended December 31, 1993. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above

present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, the Company changed its method of accounting for income taxes and postretirement benefits other than pensions to adopt the provisions of Financial Accounting Standards Board Statements of Financial Accounting Standards No. 109, 'Accounting for Income Taxes' and No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions'.

KPMG PEAT MARWICK

Philadelphia, Pennsylvania
February 1, 1994

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

General Information

Philadelphia Suburban Corporation ('PSC' or the 'Company') is composed of two businesses, a regulated water utility (Philadelphia Suburban Water Company or 'PSW'), and a nonregulated data processing service bureau (Utility & Municipal Services, Inc.). The service bureau operations are not significant to the financial results of the Company and, therefore, are not discussed separately. In 1990, the Board of Directors authorized the sale of Mentor Information Systems, Inc., Digital Systems, Inc., American Tele/Response Group, Inc., Stoner Associates, Inc., and its subsidiary Kesler Engineering, Inc.; and in the first quarter of 1991, the Board of Directors authorized the sale of PSC Engineers & Consultants, Inc. In 1991, the Company sold all of these businesses with the exception of American Tele/Response Group, Inc. and Kesler Engineering, Inc., which were both sold in early 1993. The results of operations of these businesses during the period they were owned by the Company are accounted for as discontinued operations. See Results of Operations - Discontinued Operations.

Results of Operations

Following are selected five-year financial statistics for the Company:

	YEARS ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Earned revenues.....	\$ 101,244	\$ 93,307	\$ 88,648	\$ 82,267	\$ 75,993
Income from continuing operations before income taxes.....	\$ 24,261	\$ 18,661	\$ 17,260	\$ 15,569	\$ 14,776
Operating Statistics					
Earned revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operating expenses.....	45.4	46.1	48.1	51.2	51.0
Depreciation and amortization.....	10.8	10.1	9.3	9.6	9.4
Taxes other than income taxes.....	6.8	7.0	6.9	5.5	5.1
Interest and debt expenses*.....	13.8	17.1	17.5	17.4	16.4
Allowance for funds used during construction.....	(0.8)	(0.3)	(1.3)	(2.6)	(1.3)
Total costs and expenses.....	76.0	80.0	80.5	81.1	80.6
Income from continuing operations before income taxes.....	24.0%	20.0%	19.5%	18.9%	19.4%
Effective tax rates.....	43.0%	43.1%	41.0%	37.5%	37.2%
Income from continuing operations as a percentage of average common stockholders' equity.....	11.4%	11.0%	11.9%	11.4%	11.1%

* Includes dividends on preferred stock of subsidiary with mandatory redemption.

Following are selected five-year operating and sales statistics for PSW:

	YEARS ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
Daily sendout (Million gallons per day)					
Maximum.....	120.7	101.3	109.5	103.4	96.4
Average.....	89.1	85.4	87.2	88.4	87.9
Metered customers					
Residential.....	232,684	230,740	223,635	222,660	221,524
Commercial.....	10,720	10,547	9,800	9,763	9,634
Industrial.....	832	837	820	831	836
Other.....	2,959	2,664	2,361	2,206	2,036
Total.....	247,195	244,788	236,616	235,460	234,030
Consumption per customer in gallons					
Average.....	110,368	108,258	110,978	110,281	111,948
Revenues from water sales					
Residential.....	\$ 66,656	\$ 60,239	\$ 58,053	\$ 53,702	\$ 48,591
Commercial.....	20,112	19,235	18,031	16,712	15,082
Industrial.....	4,601	4,500	4,126	4,083	3,861
Other.....	8,092	7,577	6,856	6,205	5,581
Total.....	\$ 99,461	\$ 91,551	\$ 87,066	\$ 80,702	\$ 73,115

Income from continuing operations of the Company has grown at an annual compound rate of approximately 8.4% during the five-year period ended December 31, 1993. During this same period, revenues and total expenses, other than income taxes, have grown at compound rates of 6.7% and 5.7%, respectively.

Earned Revenues

Water revenues have accounted for approximately 98% of the Company's earned revenues from continuing operations during the five-year period covered above. The balance of the revenue from continuing operations is primarily associated with data processing services that have remained relatively constant.

The growth in water revenues over the past five years is primarily a result of increases in rates and, to a lesser extent, an increase in customer base. Revenues in 1993 also increased as a result of the December 1992 acquisitions of two municipal water systems which provided water revenues of \$2,052. Excluding the 7,748 customers that were added as a result of the acquisitions in December 1992 and 1993, the customer base increased at a five-year annual compound rate of .6%. This increase represents normal expansion within the water utility's established 339-square-mile service territory. Water rates have increased by 32% since 1989, reflecting an annual compound growth rate of 5.6% over the five-year period.

Rates charged by PSW for water service are subject to the approval of the Pennsylvania Public Utility Commission ('PUC'). PSW continuously reviews the necessity of filing applications with the PUC for increases in rates charged for water service. Among the factors considered by management in determining the need to apply for increased rates are: changes in the cost of capital and the capital structure of PSW; increases in operating expenses (including wages, fringe benefits, electric and chemical expenses), depreciation and taxes experienced since the previous rate decision; and the amount of utility plant additions and replacements made since the previous rate decision. Based on these assessments, PSW will periodically file a request with the PUC to increase its rates. Typically, the PUC will suspend the rate request for up to nine months during which time hearings on the merits of the request are held. During these hearings, the views of PSW as well as the PUC staff, the Consumer Advocate and other interested parties are presented and evaluated.

The return allowed on PSW's common equity is a major factor in the

determination of rates and is also evaluated before applying for a rate increase. The return on common equity allowed by the PUC has declined in recent years from 13.7% allowed in the 1988 increase. The 1991 rate increase, in which a 12% return on common equity was allowed, was the most recent request that the PUC specified a return on common equity for PSW. The rate increases which were effective in June 1993 and September 1990 resulted from settlements, with PUC approval, between the Company and the opposing parties and, as such, no determination of the rate of return on common equity was made by the PUC.

Over the past 10 years, PSW had applied for, and received the following rate increases from the PUC:

DATE FILED	EFFECTIVE DATE	RATE INCREASE REQUESTED	RATE INCREASE ALLOWED	RETURN ON EQUITY REQUESTED	RETURN ON EQUITY ALLOWED
March 1984	December 1984	12.2%	6.9%	16.5%	16.5%
July 1985	April 1986	16.9%	9.2%	16.0%	15.0%
October 1987	July 1988	12.2%	7.8%	14.5%	13.7%
April 1989	December 1989	13.2%	9.0%	14.1%	12.7%
March 1990	September 1990	9.7%	4.3%	13.5%	Settled
January 1991	October 1991	13.1%	7.7%	13.2%	12.0%
November 1992	June 1993	17.6%	7.4%	12.9%	Settled

On December 3, 1993, PSW filed a request with the PUC to increase its rates by 14% or \$14,000 on an annual basis. Included in this filing is a requested return on common equity of 11.9%. In January 1994, the PUC suspended this request and hearings on the merits of the request are expected in March and April of 1994. The PUC is anticipated to rule on the rate request by August 1994.

In addition to the rate increases noted above, the PUC has adjusted rates to reflect changes in the tax laws. Effective August 1991, PSW was allowed to add a 4.1% surcharge to its bills in order to recover costs associated with an increase in certain Pennsylvania tax rates. Initially, this surcharge allowed PSW to recover during the seven-month period from August 1991 to March 1992, most of the additional tax expenses that were incurred during the 15-month period from January 1991 to March 1992. In accordance with PUC regulations, the surcharge was recomputed to 2.03% for bills rendered from April 1992 to March 1993 and to 1.97% for bills rendered from April 1993 to May 1993, reflecting the more timely recovery of these additional taxes. Recovery of the additional tax expenses was incorporated into PSW's base rates which took effect on June 1, 1993 and the surcharge was no longer added to bills for water service subsequent to that date. Revenues associated with the surcharge were \$706 in 1993, \$2,281 in 1992 and \$1,292 in 1991.

'Sendout' represents the quantity of treated water delivered to the distribution system and is used by management as an indicator of customer demand. Consumption per customer is the sendout that was used by metered customers and is based on the actual bills rendered during the year adjusted for the estimated unbilled customer usage. Over the past five years, an average of approximately 81.9% of the sendout was consumed by metered customers. The majority of the balance was used through unmetered fixed-rate fire hydrants, lost through leaks in water mains or used by PSW in its operations. PSW's ratio of metered customer use to total sendout is consistent with industry statistics. The percentage of water consumed by metered customers was 83.4% in 1993, 82.2% in 1992 and 82.3% in 1991. The improvement in the percentage of sendout consumed by metered customers is associated with fewer main breaks, particularly in the past three years when the winter months were less severe, PSW's leak detection and water main rehabilitation programs, and an increase in the number of newer and more accurate meters.

In 1993, the average consumption per customer improved over 1992 but was still slightly below the average for the years 1989 to 1991. While consumption in 1993 improved significantly during the summer months, this improvement was largely offset by decreases in consumption during the balance of the year. In 1992, average consumption decreased by 2.5% over 1991 and it is believed that this

decrease was associated with the cool, wet weather experienced in the late spring and early summer of that year. The recession, which impacted most classes

of customers, and conservation by customers also may have had an impact on consumption in the past two years.

Water consumption tends to be impacted by weather conditions, 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. Except for 1992, the average annual consumption per customer over the past five years was relatively constant. The spring and summer of 1992 were characterized by cooler weather with frequent rains and consumption declined. It is difficult to establish an exact correlation between the weather and water consumption, since conservation and even day-to-day variations in weather patterns can have an effect. Conservation efforts and mandated water use restrictions in response to drought conditions in prior years have also had an effect on water consumption.

Operating Expenses

Operating expenses of a water utility company may be grouped into the general categories of collection, pumping, purification, distribution and administration. These expenses for 1993, 1992 and 1991 totaled \$44,480, \$41,314 and \$40,059, respectively. All elements of cost are subject to the effects of inflation, as well as the effects of changes in water consumption and the degree of treatment required due to variations in the quality of the raw water being processed. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption and raw water quality. Maintenance expenses are sensitive to extreme cold weather, which can cause water mains to rupture.

PSW's operating expenses increased in 1993 over 1992 by 7.7% due to increased wages and employee benefit costs; operating expenses associated with the December 1992 acquisitions and the cost to process and distribute the increased volume of water sold. The increase in 1992 over 1991 of 3.1% was associated with wage increases offset in part by reductions in variable costs due to the reduction in water sales.

Corporate costs related to continuing operations were 1%, 2% and 4% of the Company's operating expenses in 1993, 1992 and 1991, respectively. Such expenses include those unallocated general and administrative expenses associated with maintaining a publicly-held company.

Depreciation and Amortization

Depreciation expense was \$9,927, \$8,646 and \$7,612 in 1993, 1992 and 1991, respectively, and has increased principally as a result of the significant capital expenditures made to expand and modernize the water utility plant. Depreciation expense was approximately 2.2% of the average utility plant in service for all years. Amortization expense, which was \$1,008, \$800 and \$641 in 1993, 1992 and 1991, respectively, increased in each of the last two years due to the frequency of rate request filings and a decrease in the time frame over which those costs are amortized.

Taxes Other than Income Taxes

Taxes other than income taxes increased by 6% in 1993 and by 7% in 1992 over the previous year. The majority of the increase in both years was associated with increases in the bases on which the Pennsylvania Public Utility Realty Tax (PURTA) and the Capital Stock Tax are calculated. The increase in taxable base for the PURTA is due to the increases to utility plant over the past two years, including the December 1992 and 1993 acquisitions, while the increase in the Capital Stock Tax is due to the common equity raised over the past two years.

Interest and Debt Expenses

Interest expense was \$13,108, \$15,068 and \$14,781 in 1993, 1992 and 1991, respectively. The decrease in 1993 was due to reductions in total debt outstanding, the refinancing in the past two years of certain First Mortgage Bonds at PSW with lower-cost debt and reductions in interest rates on borrowings under PSW's revolving credit facility. The Company was able to reduce its average outstanding debt in 1993 with the proceeds it received from the sale of common stock and the discontinued operations. Interest expense increased in 1992 over 1991 due to higher average borrowings during that year, offset in part by

lower interest rates on borrowings under PSW's revolving credit facility.

Allowance for Funds Used During Construction

The allowance for funds used during construction ('AFUDC') was \$805, \$258 and \$1,194 in 1993, 1992 and 1991, respectively, and has varied over the years as a result of changes in the average balance of utility plant construction in progress, to which AFUDC is applied, and, to a lesser extent, to changes in the AFUDC rate.

The average balance of construction in progress to which AFUDC is applied was \$8,379, \$3,197 and \$14,372 in 1993, 1992 and 1991, respectively. The variances in these average balances are primarily due to a \$32,700 water treatment plant placed in service in mid-1991 and an \$11,500 treatment plant placed in service in November 1993. AFUDC was no longer applied to these projects after they were placed in service but was applied to an ever-increasing base during the period they were under construction. The average cost of capital on which the AFUDC rate was based, has declined since 1991 reflecting similar decreases in interest rates and the allowed return on PSW's common equity.

Income Taxes

The Company's effective income tax rate was 43.0% in 1993 as compared to 43.1% in 1992 and 41.0% in 1991. The effective tax rate declined in 1993, despite a 1% increase in the statutory federal tax rate, due to a reduction of operating expenses at the parent company which are not deductible for state income taxes. In 1992, the Company filed with the Internal Revenue Service ('IRS') a request to change its method of accounting with respect to interest and overhead costs capitalized on utility plant construction. As a result of this request, the Company incurred additional state income taxes which increased the effective tax rate in 1992.

Discontinued Operations

As a result of deterioration in the operating results and backlog of future work at the discontinued operations during 1992, and a substantial reduction in the estimated net proceeds from the ultimate disposition of the businesses, a charge of \$5,500 was taken in the third quarter of 1992 to reflect the Company's revised estimate of the ultimate loss on the disposition of these businesses. In the third quarter of 1991, a similar charge of \$5,000 was taken to reflect the then current estimate as to the ultimate outcome of the Company's divestiture effort. Both charges were based on estimates, which considered the facts and circumstances known at the time the charges were taken, and included projections of operating results through the expected disposition dates and estimates of the net proceeds from the dispositions. Delays in finding suitable buyers, further deterioration in operating performance and the resulting decline in the estimated net proceeds from the disposition were the most significant variations from the Company's previous projections as to the ultimate results of the divestiture efforts. The timing and the net proceeds from the disposition of the two businesses sold in the first quarter of 1993, and the operating losses during the period they were owned by the Company were within the estimated reserves established in the third quarter of 1992 and the Company does not foresee the need for any further charges to income related to the discontinued operations. The balance of the reserves for discontinued operations were established to cover future additional costs associated

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with these operations, including administrative, legal and tax services; contingent legal and lease obligations and certain employee costs.

Summary

Operating income from continuing operations in 1993, 1992 and 1991 was \$37,430, \$34,337 and \$31,637, respectively, and income from continuing operations was \$13,835, \$10,626 and \$10,179, respectively, for the same periods. On a per share basis, income from continuing operations in 1993, 1992 and 1991 was \$1.27, \$1.23 and \$1.29, respectively. The increase in the per share income from continuing operations in 1993 over 1992 was due to the aforementioned improvements in profits offset in part by a 25.7% increase in the average number of shares outstanding during the year.

Although the Company has experienced increased income from continuing operations 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. This in turn will provide the level of internal funds necessary to expand and modernize the utility plant.

Net income in 1993, 1992 and 1991 was \$13,835, \$4,292 and \$4,889, respectively. Net income in 1993 improved as compared to 1992 due to increased income from continuing operations and to the absence of charges related to the discontinued operations and the early retirement of debt. Net income in 1992 declined as compared to 1991 as a result of the losses related to the discontinued operations and the extraordinary charge related to the early retirement of parent company debt, offset by the improvement in income from continuing operations.

Fourth Quarter Results

Income from continuing operations for the fourth quarter of 1993 increased by \$562 to \$3,387 primarily as a result of a \$2,551 increase in revenues and reduced interest expense during this period. The increase in revenues is a result of the 7.4% rate increase which took effect in June 1993 and to a slight increase in water sales during the quarter. The increase in revenues was partially offset by higher operating expenses, income taxes, depreciation, amortization and taxes other than income taxes. Operating expenses increased as a result of an increase in variable costs associated with the increase in water sales, wage increases, an increase in costs associated with main breaks and to expenses related to the December 1992 acquisitions. Depreciation increased due to utility plant additions made since the fourth quarter of 1992. Amortization increased primarily due to the amortization of costs associated with the June 1993 rate increase. Taxes other than income taxes increased primarily because of the increase in the base on which the PURTA and Capital Stock Tax are computed. Interest declined in the fourth quarter primarily as a result of the retirement of \$25,000 of parent company debt in the second half of 1992 and lower interest rates.

Recent Events

In January and February 1994, the extreme cold weather experienced in PSW's service territory caused an abnormally high number of water main breaks and as a result, maintenance expenses have increased. In addition, sendout increased, and while some of this increase is associated with the water main breaks, a portion of the increase in sendout may be due to additional use by customers who allowed water to run in order to keep pipes within their properties from freezing. Any increase in revenues attributable to additional customer use will not be determined until the end of the first quarter and consequently, the impact of the weather on the results of operations during this period is unknown at this time.

Effects of Inflation

The effects of inflation on the Company during the past several years have not been significant. As a regulated enterprise, PSW's rates are established to provide recovery of costs and a return on its investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases

in costs caused by inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on the water utility's operating results are not significant.

Regulatory Asset

During the year, the Company adopted Statement of Financial Accounting Standards No. 106, 'Employers' Accounting for Postretirement Benefits Other Than Pensions' ('SFAS 106') and Statement of Financial Accounting Standards No. 109, 'Accounting for Income Taxes' ('SFAS 109'). These standards require PSW to compute its income tax expense and its postretirement benefit costs other than pensions ('PBOP') in a manner which differs from the computations used to establish the recovery of expenses in the rate making process. A regulatory asset was established during the year to defer the incremental costs related to the adoption of the new standards and to recognize their expected recovery through future water rates. During the year a regulatory asset of \$51,229 was recorded of which \$1,696 relates to SFAS 106 and \$49,533 relates to SFAS 109.

The use of regulatory accounts is permitted by Statement of Financial Accounting Standards No. 71 'Accounting for the Effects of Certain Types of Regulation' ('SFAS 71'), which recognizes that the economic effects of regulations on a utility can sometimes require accounting which is different from that applied to enterprises in general in order for the financial statements to be presented fairly. A recent interpretation of SFAS 71 by the Emerging Issues Task Force of the Financial Accounting Standards Board ('FASB'), whose positions are a source of generally accepted accounting principles ('GAAP'), indicates that the use of a regulatory asset to offset the impact of costs computed under SFAS 106 is appropriate only if certain conditions are met. Primary among these conditions is the assessment that it is probable that the PUC will allow costs as defined by SFAS 106, including amounts previously deferred, to be recovered in the rates the Company charges its customers.

The Company's rate request filed on December 3, 1993 includes costs computed under SFAS 106. In addition, during 1993, PSW requested and was granted PUC approval to record the regulatory asset as it relates to SFAS 106. In granting the request, the PUC declared the regulatory asset recorded pursuant to their decision allowable for ratemaking purposes and concluded that the water utility was allowed to make a claim to recover in rates both the annual SFAS 106 costs and the regulatory asset. These acknowledgements, coupled with the PUC's 1993 actions to approve SFAS 106 costs in other utility rate proceedings, provide sufficient basis for the establishment of a regulatory asset for the excess costs computed under SFAS 106.

In 1993, the Pennsylvania Office of Consumer Advocate, in response to the PUC's approval of other utility requests for deferral or recovery of SFAS 106 costs, appealed selected cases to the Commonwealth Court. Should the Court reverse the PUC's approval, the Company would likely cease deferring any cost associated with SFAS 106 and all amounts previously deferred would be expensed. However, since the Company does not intend to fund the excess of its SFAS 106 cost over the pay-as-you-go-cost if rate recovery is not provided, cash flow from operations will not be impacted.

Income tax expense recognized in the rate making process has generally been limited to current tax expense plus deferred Federal taxes as they related to certain depreciable assets. The PUC has generally not recognized deferred income tax expenses related to any state tax or on other differences between book and taxable income. As a result, tax expense for rate making purposes has been reduced resulting in rates which have been lower than they would have been had financial accounting standards been used in establishing rates. Management believes that the PUC will continue to follow its practice of allowing rate recovery of current taxes and accordingly, recovery of the additional taxes included in the regulatory asset will occur as the temporary differences reverse.

Financial Condition

Cash Flow and Capital Expenditures

Net operating cash flow, dividends and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1993 are as follows:

	NET OPERATING CASH FLOW	DIVIDENDS	CAPITAL EXPENDITURES
	-----	-----	-----
1989.....	\$ 17,432	\$ 6,929	\$ 32,331
1990.....	16,897	7,641	30,774
1991.....	19,121	7,859	22,335
1992.....	22,638	8,866	21,719
1993.....	26,940	11,629	27,958
	-----	-----	-----
	\$ 103,028	\$ 42,924	\$ 135,117
	-----	-----	-----

Of the \$135,117 in capital expenditures made in the past five years, \$134,800 results from PSW's construction program. Included in PSW construction expenditures are: \$44,200 for the construction of two surface water treatment plants; \$18,684 for new water mains; and \$16,750 for the rehabilitation of existing water mains. During this five year period, PSW received \$16,152 of advances and contributions in aid of construction to finance new water mains. In addition to its capital program, PSW has made sinking fund contributions aggregating \$5,850, replaced \$40,981 of debt and has refunded \$10,444 of customer advances for construction over the past five years and expended \$10,451 related to the December 1993 and 1992 acquisitions of three municipal water systems.

Since net operating cash flow to PSW plus advances and contributions in aid of construction have not been sufficient to fully fund its cash requirements, PSW issued approximately \$69,000 of long-term debt during the past five years, \$10,000 of preferred stock in 1991 and received \$29,000 of equity investments from the Company during 1993.

The Company funded its investment in PSW and the repayment of approximately \$35,000 of its debt in 1991 and 1992 with the proceeds from the sale of common stock and the sale of its discontinued operations. In April 1993, the Company sold 1,100,000 shares of common stock in a public offering for net proceeds of \$18,331. The Company has also sold 2,909,343 shares of common stock for net proceeds of \$42,248 since 1989 through three plans that allow existing shareholders and customers of PSW to purchase shares of common stock directly from the Company. The following table provides the net proceeds to the Company and the shares issued under these plans:

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	CUSTOMER STOCK PURCHASE PLAN	DIVIDEND REINVESTMENT PLAN	OPTIONAL STOCK PURCHASE PLAN	TOTAL
Net proceeds:				
1989.....	\$ 2,769	\$ 283	\$ 193	\$ 3,245
1990.....	2,431	435	90	2,956
1991.....	2,651	494	172	3,317
1992.....	24,185	742	264	25,191
1993.....	5,465	1,491	583	7,539
	\$ 37,501	\$ 3,445	\$ 1,302	\$ 42,248
Shares issued:				
1989.....	227,333	20,474	14,686	262,493
1990.....	205,600	36,114	7,155	248,869
1991.....	193,775	37,247	11,997	243,019
1992.....	1,669,159	51,143	17,159	1,737,461
1993.....	298,940	86,704	31,857	417,501
	2,594,807	231,682	82,854	2,909,343

Proceeds from the Customer Stock Purchase Plan ('CSPP') increased dramatically in 1992 and, in order to better match future equity additions with the need for additional capital, the Company amended this Plan in 1993 to eliminate the 5% discount it previously offered customers and limited future stock sales under this Plan to approximately 100,000 shares in each of the three subscription periods during the year. The Dividend Reinvestment Plan ('DRP') continues to offer a 5% discount to participants of this Plan.

PSW's 1994 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$27,115 which is expected to be financed, along with \$850 of sinking fund obligations and \$4,034 of debt maturities, through internally-generated funds, a revolving credit facility, equity investments from the Company, and issuance of new long-term debt. PSW has also submitted a proposal to acquire a municipal water system contiguous to its existing service territory for a purchase price in excess of \$20,000. The proposal is currently being evaluated by the municipality and, if accepted, it is anticipated that the acquisition would be completed in the second half of 1994. This acquisition would be funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt and issuance of new equity.

Future utility construction in the period 1995 through 1998, 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 \$100,000. The Company anticipates that approximately 50% of these expenditures will require external financing, including additional investments from the Company. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

PSW's ability to finance its future construction programs depends on its ability to attract the necessary external financing and maintain or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required to allow PSW to achieve an adequate level of earnings to enable it to attract capital, maintain satisfactory debt coverage ratios and maintain the water utility's financial position at a level sufficient to secure attractively priced capital.

Operating cash flow from the water utility along with external financings will enable the Company to pursue its capital expenditure programs, pay dividends and supply the working capital required by the Company in 1994. Management believes, that with the improvement in the Company's

capitalization ratios over the past two years, it will be able to obtain the external financing that it will need.

Capitalization

The following table summarizes PSC's capitalization during the past five years:

	DECEMBER 31,				
	1993	1992	1991	1990	1989
Long-term debt, including current portion.....	50.7%	58.1%	64.4%	68.6%	65.7%
Preferred stock with mandatory redemption.....	3.4	3.6	3.7	--	--
Common stockholders' equity.....	45.9	38.3	31.9	31.4	34.3
	100.0%	100.0%	100.0%	100.0%	100.0%

The changes in the capitalization ratios result from the issuance of common stock over the past five years, preferred stock in 1991, the retirement of parent company debt in 1992 and 1991 and the issuance of debt by PSW to finance its capital program.

Impact of Recent Accounting Pronouncements

In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112, 'Employers' Accounting for Postemployment Benefits' ('SFAS 112') which requires the Company to accrue the expected cost of providing postemployment benefits during the years that employees render services to the Company. The Company intends to adopt this standard as required in the first quarter of 1994. Historically, the Company has experienced minimal postemployment medical costs and the Company has already established adequate reserves for other costs which are accruable under this standard. Consequently, the implementation of SFAS 112 is expected to have little or no impact on the results of operations or financial position of the Company.

Dividends on Common Stock

Following is a recent history of income from continuing operations and dividends of the Company:

INCOME PER
SHARE FROM

	CASH DIVIDEND PER SHARE	CONTINUING OPERATIONS	PAYOUT RATIO
1989.....	\$.94	\$ 1.25	75%
1990.....	1.00	1.27	79
1991.....	1.00	1.29	78
1992.....	1.04	1.23	85
1993.....	1.07	1.27	84

Dividends have averaged approximately 80% of income from continuing operations during this period. In March 1993, the annual dividend increased by 4% to \$1.08 beginning with the June 1993 dividend.

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SUMMARY OF SELECTED FINANCIAL DATA
PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED DECEMBER 31,	1993	1992	1991	1990	1989
PER COMMON SHARE:					
Income from continuing operations (a).....	\$ 1.27	\$ 1.23	\$ 1.29	\$ 1.27	\$ 1.25
Net income.....	1.27	0.50	0.62	0.53	1.05
Cash dividends.....	1.07	1.04	1.00	1.00	0.94
Return on average shareholders' equity (b).....	11%	11%	12%	11%	11%
Book value at year end.....	\$ 11.89	\$ 10.88	\$ 10.66	\$ 10.95	\$ 11.39
Market value at year end.....	18.38	16.00	15.75	12.13	13.88
INCOME STATEMENT HIGHLIGHTS:					
Earned revenues (b).....	\$ 101,244	\$ 93,307	\$ 88,648	\$ 82,267	\$ 75,993
Interest and debt expenses (b) (c).....	13,169	15,676	14,377	12,174	11,448
Income before income taxes (b).....	24,261	18,661	17,260	15,569	14,776
Provision for income taxes (b).....	10,426	8,035	7,081	5,833	5,498
Income from continuing operations (a).....	13,835	10,626	10,179	9,736	9,278
Net income.....	13,835	4,292	4,889	4,089	7,786
BALANCE SHEET HIGHLIGHTS:					
Total assets.....	\$ 439,679	\$ 365,949	\$ 350,560	\$ 352,037	\$ 328,267
Property, plant and equipment, net (b).....	366,230	345,610	320,974	306,702	284,040
Common stockholders' equity.....	135,934	106,971	85,621	85,456	85,886
Preferred stock with mandatory redemption.....	10,000	10,000	10,000	--	--
Long-term debt.....	145,292	153,508	168,076	175,885	163,007
Total debt.....	150,995	163,048	172,786	187,755	166,459
ADDITIONAL INFORMATION:					
Capital additions (b) (d).....	\$ 27,958	\$ 21,719	\$ 22,335	\$ 30,774	\$ 32,331
Dividends on common stock.....	11,629	8,866	7,859	7,641	6,929
Number of metered water customers.....	247,195	244,788	236,616	235,460	234,030
Number of shareholders of common stock.....	10,811	9,863	6,408	6,373	6,261
Common shares outstanding (000).....	11,430	9,832	8,034	7,804	7,538
Employees (full-time) (b).....	523	526	526	523	517

(a) 1992 operating results are before extraordinary charge of \$834 or 0.10 per share.

(b) Represents continuing operations only.

(c) Includes dividend on preferred stock and is net of allowance for funds used during construction.

(d) Excludes payments for acquired water systems of 1,323 in 1993 and 9,128 in 1992.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists all of the subsidiaries of the Company at
December 31, 1993:

Philadelphia Suburban Water Company (Pa.)
Utility & Municipal Services, Inc. (Pa.)
PSC Services, Inc. (Del.)

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Philadelphia Suburban Corporation

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option No.33-27032), (1982 Stock Option Plan No.2-81757); Post-Effective Amendment No. 1 on Form S-3 (Dividend Reinvestment and Optional Stock Purchase Plan) to Form S-3 (No. 33-26791) and to Form S-2 (No. 33-26792); and on Post-Effective Amendment No. 2 on Form S-3 (Customer Stock Purchase Plan) to Form S-2 (No. 33-54292) of Philadelphia Suburban Corporation of our report dated February 1, 1994, related to the consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1993 and 1992 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1993, which report is incorporated by reference in the December 31, 1993 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG PEAT MARWICK

Philadelphia, Pennsylvania
March 29, 1994

The undertaking set forth below is filed for the purposes of incorporation by reference into Part II of the registration statements on Form S-8, File Nos. 2-81757, 33-27032 and 33-52557.

ITEM 9. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the 'Securities Act') may be permitted to directors, officers or persons controlling the registrant pursuant to the provisions described in this registration statement, or otherwise, Philadelphia Suburban Corporation (the 'Company') has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Company of expenses incurred or paid by a director, officer or controlling person of the Company in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.