



2001 Annual Report

Company Profile

Philadelphia Suburban Corporation (NYSE:PSC) is one of the nation's largest, publicly-traded water utilities. Its two major operating subsidiaries, Pennsylvania Suburban Water Company and Consumers Water Company, serve approximately two million residents with water and wastewater utility operations in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina.

Financial Highlights

Philadelphia Suburban Corporation

Financial Highlights

(In thousands of dollars, except per share amounts)

	2001	2000	% Change
Operating revenues	\$307,280	\$274,014	12.1
Income from operations, exclusive of nonrecurring items (a)	60,005	50,548	18.7
Net income available to common stock (b)	60,005	52,784	13.7
Diluted income per common share from operations, exclusive of nonrecurring items (a) (c)	0.87	0.77	13.0
Diluted net income per common share (b) (c)	0.87	0.81	7.4
Annual dividend rate per common share (c)	0.53	0.50	6.0
Dividends paid per common share (c)	0.50	0.47	6.4
Common stockholders' equity per share (c)	6.90	6.38	8.2
Stockholders' equity	473,833	432,347	9.6
Total assets	1,560,339	1,413,723	10.4
Capital additions (d)	124,088	129,740	(4.4)
Number of customers served	602,510	579,219	4.0

(a) Excludes 2000 net gain of \$2,236 (\$0.04 per share) for the partial recovery of the merger costs related to the Consumers Water Company merger.

(b) Includes nonrecurring items noted in (a) above.

(c) Restated for 2001 5-for-4 stock split.

(d) Excludes payments for acquired water systems: \$9,517 in 2001 and \$3,546 in 2000.

Chairman's Message

March 13, 2002
Dear Shareholder



At the annual meeting last year, we outlined a growth plan for our company to improve on the solid financial position we've managed to achieve over the last several years. Over the year, while continuing to provide our customers with quality water and reliable service, the plan called for us to grow our customer base by four percent; revenues by seven percent; earnings by 10 percent; and dividends by five percent. As we look back on 2001, I am happy to report that with the support of our employ-

ees and investors, we have achieved—and in some areas surpassed—those targets.

A four percent increase in our customer base propelled the company past the 600,000-customer mark and as of the year-end, PSC served 602,510 customers. That growth coupled with rate relief in five of the six states in which we operate and favorable weather conditions contributed to a 12.1 percent increase in revenue for the year to \$307.3 million compared to \$274.0 million for the prior year.

Net income for the year ended December 31, 2001 increased 13.7 percent to \$60.0 million versus \$52.8 million in the prior year. Diluted net income per share for the year increased 7.4 percent to \$0.87, versus \$0.81 in 2000, on 5.1 percent more average shares outstanding. Diluted income per share from operations increased to \$0.87 per share, up 13.0 percent in comparison to \$0.77 in 2000 (excluding a \$.04 recovery of net merger expenses).

As a result of the company's solid financial performance, the Board of Directors rewarded shareholders with the eleventh cash dividend increase in the last 10 years and the fourth stock split in six years.

The majority of our customer growth was a result of our continuing growth-through-acquisition strategy, which after 10 years, has resulted in more than 90 acquisitions and growth ventures. In 2001, the 10th year of the program, we completed 20 acquisitions and other growth ventures in the six states we serve, including 11 in Pennsylvania where the bulk of our customers (approximately 395,000) are located. In 2002, customer growth is continuing with two acquisitions completed (Citizens Water Company of Wapwallopen and the White Haven Municipal Authority in northeastern Pennsylvania), and several other transactions in the negotiation phase. The success of our growth program has helped to mitigate the amount of rate increases for our customers.

Operations and maintenance (O&M) expenses as a percent of revenue (efficiency ratio) continued to improve in 2001 to 36.4 percent, versus 37.1 percent in 2000, continuing a three-year trend of an average 100 basis point annual decrease in the efficiency ratio since the merger with Consumers Water in 1999. Controlling our operating expenses provides more cash flow to invest in the capital improvements needed to provide our customers with quality water and reliable service. In 2001, we invested \$124 million throughout our operating subsidiaries to replace aging pipes in our distribution systems and build new treatment facilities to continually improve water quality.

Effective January 1, 2002, for legal, financing and administrative efficiencies and benefits, all of our Pennsylvania operating subsidiaries were merged into a single company—Pennsylvania Suburban Water Company. For operational purposes, these entities will continue to do business under their former names. Standard & Poor's (S&P) has assigned the new company an A+ corporate credit rating and a AA- rating on its first mortgage bonds. From a practical perspective, the new legal entity—Pennsylvania Suburban Water Company—and its excellent credit rating will allow for more cost-effective capital formation at all of our operations in the Commonwealth of Pennsylvania.

A review of the last 10 years indicates that PSC's success is directly attributable to our ability to: increase our customer base as a result of our successful growth-through-acquisition strategy; keep a tight reign on operating expenses; and conduct an aggressive, but prudent, capital investment program. There are still more than 50,000 water systems in the U.S. and our management is experienced at acquiring water systems, and making needed capital investments to improve water quality and customer service.

We are optimistic about our future and our ability to continue to navigate the same road that has brought the company and its shareholders the success we've all experienced over the past decade. Thank you for your continuing support.

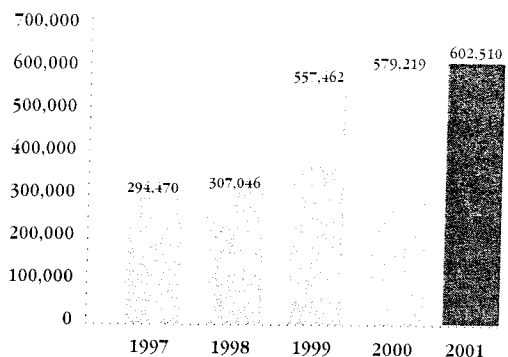
Sincerely,



Nicholas DeBenedictis
Chairman and President

Philadelphia Suburban Corporation

Customers*

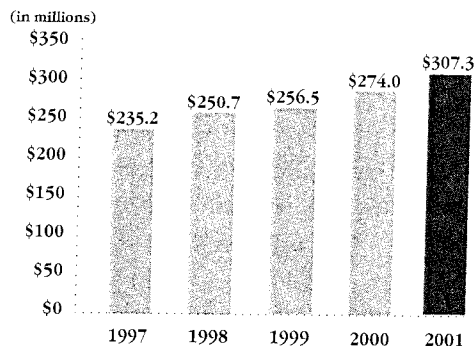


*Amounts include operations and management contract customers and exclude Consumers Water Company customers of 232,170 in 1997 and 226,801 in 1998.

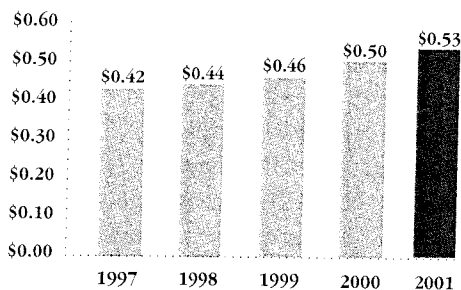
Dividend Highlights

- Dividends paid for 57 consecutive years
- A 5-for-4 common stock split effected in the form of a 25 percent stock distribution and a 6.9 percent cash dividend increase to shareholders of record, paid on December 1, 2001
- 11 cash dividend increases in the last 10 years
- Issued four stock splits in the form of a stock distribution in the last six years

Operating Revenues

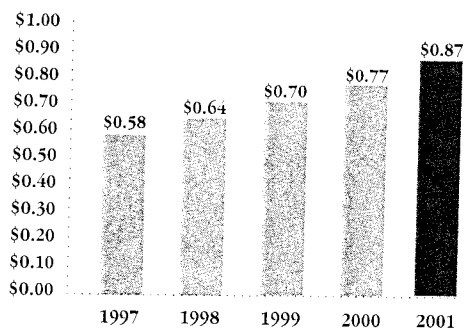


Dividend Rate*



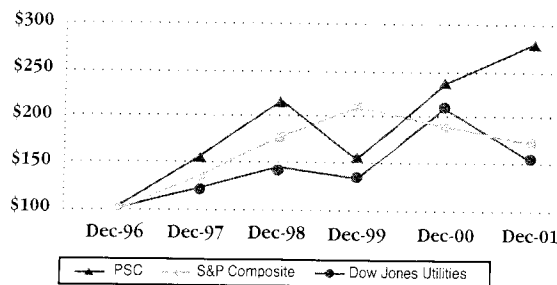
* Restated for 2001 5-for-4 stock split

Earnings Per Share*



*Income from continuing operations, exclusive of certain non-recurring items, on a diluted basis. Per share amounts restated for 2001 5-for-4 stock split.

Five-Year Growth - Total Return



2001 Financial Data

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands of dollars, except per share amounts)

FORWARD-LOOKING STATEMENTS

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

GENERAL INFORMATION

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

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

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Following are our selected five-year financial statistics:

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

(a) Continuing operations only.

(b) Non-recurring items include the 2000 gain of \$2,236 (\$4,041 pre-tax) for the partial recovery of the merger costs related to the 1999 merger with Consumers Water Company, 1999 charges of \$8,596 (\$10,121 pre-tax) for transaction costs and restructuring costs related to the merger with Consumers Water Company, and the 1998 gain of \$3,903 (\$6,680 pre-tax) on the sale of Consumer Water Company's New Hampshire system.

(c) Includes dividends on preferred stock of subsidiary and minority interest.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Following are our selected five-year operating and sales statistics:

Years ended December 31,		2001	2000	1999	1998	1997
Customers	Residential water	526,776	512,442	497,937	478,160	473,309
	Commercial water	29,745	29,317	29,241	27,612	26,369
	Industrial water	1,454	1,446	1,430	1,327	1,386
	Other water	9,947	9,500	9,067	8,277	7,574
	Wastewater	19,615	12,441	11,262	10,583	10,522
	Operating contracts	14,973	14,073	8,525	7,888	7,480
	Total	602,510	579,219	557,462	533,847	526,640
Operating Revenues	Residential water	\$ 188,303	\$ 170,597	\$ 154,881	\$ 156,523	\$ 148,323
	Commercial water	53,103	47,109	45,192	44,894	40,439
	Industrial water	16,140	14,943	13,944	13,970	12,818
	Other water	35,682	29,582	31,999	25,672	25,132
	Wastewater	6,960	5,414	5,235	4,755	4,378
	Other	7,092	6,369	5,295	4,904	4,072
	Total	\$ 307,280	\$ 274,014	\$ 256,546	\$ 250,718	\$ 235,162

RESULTS OF OPERATIONS

Our income from continuing operations has grown at an annual compound rate of approximately 15.5% during the five-year period ended December 31, 2001. During this same period, operating revenues grew at a compound rate of 7.3% and total expenses, exclusive of income taxes, grew at a compound rate of 4.5%.

Operating Revenues

The growth in revenues over the past five years is a result of increases in the customer base and in water rates. The number of customers increased at an annual compound rate of 3.6% in the past five years primarily as a result of acquisitions of local water systems. Acquisitions made during the five-year period ended December 31, 2001 have provided water and wastewater revenues of approximately \$17,427 in 2001, \$10,637 in 2000 and \$5,606 in 1999. Excluding the effect of acquisitions, our customer base increased at a five-year annual compound rate of 0.9%. Rate increases implemented during the past three years have provided additional operating revenues of approximately \$13,100 in 2001, \$15,400 in 2000 and \$1,700 in 1999. In addition to water and wastewater operating revenues, we had other non-regulated revenues that were primarily associated with operating and management contracts, and data processing service fees of \$7,092 in 2001, \$6,369 in 2000 and \$5,295 in 1999.

Economic Regulation - Our water and wastewater utility operations are subject to regulation by their respective state regulatory commissions, which have broad administrative power and authority to regulate rates and charges, determine franchise areas and conditions of service, approve acquisitions and authorize the issuance of securities. The profitability of our utility operations is influenced to a great extent by the timeliness and adequacy of rate allowances in the various states in which we operate. Accordingly, we

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

maintain a rate case management capability to ensure that the tariffs of the utility operations reflect, to the extent practicable, the timely recovery of increases in costs of operations, capital, taxes, energy, materials and compliance with environmental regulations. In assessing our rate case strategy, we consider the amount of utility plant additions and replacements made since the previous rate decision, the changes in the cost of capital, changes in the capital structure and changes in other costs. Based on these assessments, our utility operations periodically file rate increase requests with their respective state regulatory commissions. The rates for some divisions of CWC's Ohio subsidiary can be fixed by negotiated agreements with the municipalities that are served by those divisions in lieu of regulatory approval from the Public Utility Commission of Ohio. Currently, two of the six regulated divisions in Ohio are operating under such rate ordinances.

In November 2001, Pennsylvania Suburban Water Company filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a \$28,000 or 13.4% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2002. In April 2000, the PAPUC approved a rate settlement reached between Pennsylvania Suburban Water Company and the parties actively litigating the joint rate application filed in October 1999. The settlement was designed to increase annual revenues by \$17,000 or 9.4% above the level in effect at the time of the filing. The rates in effect at the time of the filing included \$7,347 in Distribution System Improvement Charges ("DSIC") ranging from 0.33% to 5%. Consequently, the settlement resulted in a total base rate increase of \$24,347 or 13.5% above the rates in effect before the DSIC was applied. The settlement agreement also provided for the recovery of up to \$5,295 (the merger costs allocable to our Pennsylvania operations) of the \$10,121 (\$8,596 after-tax) in merger costs that were expensed in 1999 in connection with the CWC merger. During 2000, a regulatory asset was established to reflect the amount to be recovered as a result of the rate settlement. This resulted in a recovery of \$1,136 of restructuring costs and \$2,905 of merger transaction costs as reported on the Consolidated Statements of Income and Comprehensive Income.

The CWC operating subsidiaries were allowed annual rate increases of \$4,799 in 2001, \$698 in 2000 and \$390 in 1999 resulting from nine, four and two rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$4,200 in 2001, \$450 in 2000 and \$308 in 1999. The CWC operating subsidiaries currently have four rate requests in process requesting a \$3,858 increase in annual revenues. The applications are currently under review by the respective state regulatory commission.

Distribution System Improvement Charges - The PAPUC permits Pennsylvania water utilities to add a surcharge to their water bills to offset the additional depreciation and capital costs associated with certain capital expenditures related to replacing and rehabilitating distribution systems. Prior to the DSIC mechanism being approved in 1996, water utilities absorbed all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The gap between the time that a capital project is completed and the recovery of its costs in base rates is known as regulatory lag. The DSIC mechanism is intended to substantially reduce regulatory lag that often acted as a disincentive to water utilities in rehabilitating their distribution systems.

The DSIC is adjusted quarterly based on additional qualified capital expenditures made in the previous quarter. The DSIC is capped at 5% of base rates. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a PAPUC benchmark that is determined quarterly. The DSIC in 2000 was set at 5% until new base rates became effective in April 2000, at which point the DSIC was reset to zero. The DSIC in 2001 ranged from the first quarter amount of 2.2% and increased each successive quarter to 5% in the fourth quarter. The DSIC has

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

been set at 5% in the first quarter of 2002. The DSIC provided revenues of \$6,672 in 2001, \$2,301 in 2000 and \$4,140 in 1999.

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

Rate Surcharges - In addition to its base rates and DSIC, our Pennsylvania subsidiary has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated in base rates. Operating revenues were reduced by rate credits of \$639 in 2001 and increased by rate surcharges of \$74 in 2000 and \$1,306 in 1999. In the first quarter of 2002, the rate credit has been set at 0.35%.

Sendout - "Sendout" represents the quantity of treated water delivered to our distribution systems. We use sendout as an indicator of customer demand. Weather conditions tend to impact water consumption, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. In general during this period, an extended period of dry weather increases water consumption, while above average rainfall decreases water consumption. Also, an increase in the average temperature generally causes an increase in water consumption. Conservation efforts, construction codes which require the use of low flow plumbing fixtures as well as mandated water use restrictions in response to drought conditions also affect water consumption.

Our exposure to regional weather conditions is lessened by our geographic diversity, as our customers are located in the following states: 65% in Pennsylvania, 14% in Ohio, 11% in Illinois, 6% in New Jersey, 3% in Maine and 1% in North Carolina. In 2001, our territories in Pennsylvania and New Jersey experienced hot, dry weather. As a result, water consumption in these portions of our service territory increased during this period. In 2000, our service territories in several states, in particular the southeastern Pennsylvania territory, experienced cool and wet weather conditions during the summer months. As a result, water consumption in these portions of our service territory declined during this period.

On occasion, drought warnings and water use restrictions are issued by governmental authorities for portions of our service territories in response to extended periods of dry weather conditions. The timing and duration of the warnings and restrictions can have an impact on our water revenues and net income. In general, water consumption in the summer months is affected by drought warnings and restrictions to a higher degree because nonessential and recreational use of water is highest. At times other than the summer months, warnings and restrictions generally have less of an effect on water consumption. In February 2002, a drought emergency was declared in 24 counties, including seven of the counties we serve in Pennsylvania. A drought emergency imposes a ban on nonessential water use. A drought warning and drought watch had previously been issued in November 2001 for portions of our service territory in Pennsylvania. Water use restrictions were also issued during the summer of 1999, in Pennsylvania and New Jersey, when we experienced abnormally dry weather in our service areas resulting in governmental authorities declaring drought warnings and water use restrictions in the affected areas. As a result of these actions, water consumption and water revenues in these areas declined to levels below those experienced in

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

1998. When the drought restrictions were lifted in the fall of 1999, water revenues returned to normal levels. Throughout the restriction periods, we generally had sufficient quantities of raw water and maintained adequate storage levels of treated water.

Operations and Maintenance Expenses

Operations and maintenance expenses totaled \$111,885 in 2001, \$101,741 in 2000 and \$98,758 in 1999. Most elements of operating costs are subject to the effects of inflation, as well as the effects of changes in the number of customers served, in water consumption and the degree of water treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption, raw water quality, and to a lesser extent the electric market in some of the states in which we operate. Maintenance expenses are sensitive to extremely cold weather, which can cause water mains to rupture. Operations and maintenance expenses increased in 2001 as compared to 2000 by \$10,144 or 10.0% due to additional operating costs associated with acquisitions, increased water production expenses associated with the higher water consumption, and increased wage and benefit costs.

Operations and maintenance expenses increased in 2000 as compared to 1999 by \$2,983 or 3.0% due to additional operating costs associated with acquisitions, higher fuel and electric costs, and increased administrative costs, offset in part by a reduction in corporate costs as part of our cost containment initiatives. Administrative costs increased as a result of increases in insurance costs and an increased allowance for doubtful accounts. The reduction in corporate costs was related to the cost synergies resulting from the Consumers Water Company merger in March 1999.

Depreciation and Amortization Expenses

Depreciation expense was \$37,979 in 2001, \$32,271 in 2000 and \$30,612 in 1999, and has increased principally as a result of the significant capital expenditures made to expand and improve the utility facilities, and as a result of acquisitions of water systems, offset in part by the effect in 2000 of a change in depreciation rates.

Amortization expense was \$2,189 in 2001, \$1,829 in 2000 and \$1,291 in 1999. The increase in 2001 and 2000 is due to the amortization of the costs associated with, and other costs being recovered in, various rate filings. Expenses associated with filing rate cases are deferred and amortized over periods that generally range from one to three years.

Taxes Other than Income Taxes

Taxes other than income taxes decreased by \$1,633 or 7.3% in 2001 as compared to 2000 and increased by \$687 or 3.1% in 2000 as compared to the previous year. The decrease in 2001 is due to a reduction in state and local taxes and a decrease in the Pennsylvania Capital Stock Tax. The increase in 2000 is associated with increased property taxes and an increase in Pennsylvania Public Utility Realty tax due to a higher base on which the tax is calculated.

Restructuring costs (recovery)

During 2000, a recovery of restructuring costs of \$1,136 resulted from an April 2000 rate settlement. These costs were included in a 1999 charge of \$3,787 for restructuring costs that included severances of \$2,940 and exit costs associated with the closing of CWC's corporate office.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)
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Interest Expense, net

Net interest expense was \$39,859 in 2001, \$40,360 in 2000 and \$33,698 in 1999. Interest expense decreased in 2001 primarily as a result of decreased interest rates on short-term borrowings, offset in part by increased borrowings to fund capital expenditures and the acquisition of other utility systems. Interest expense during 2001 was favorably impacted by a reduction in the weighted cost of long-term debt from 7.2% at December 31, 2000 to 7.0% at December 31, 2001. Interest expense increased in 2000 primarily as a result of higher levels of borrowing in order to finance capital expenditures and the acquisition of other water systems, offset partially by the effects of decreased interest rates on short-term borrowings.

Gains on Sale of Other Assets

Gains on sale of other assets totaled \$3,384 in 2001, \$5,076 in 2000 and \$780 in 1999. Gains on sale of land totaled \$3,018 in 2001, \$1,524 in 2000 and \$780 in 1999. Gains on sale of marketable securities totaled \$366 in 2001 and \$3,552 in 2000. There were no marketable securities sold in 1999.

Dividends on Preferred Stock of Subsidiary and Minority Interest

Dividends on preferred stock of subsidiary and minority interest were \$0 in 2001, \$103 in 2000 and \$93 in 1999. The change in 2001 is a result of substantially eliminating the minority ownership of three operating subsidiaries during 2001 and the redemption of the preferred stock of subsidiaries.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was \$1,222 in 2001, \$2,688 in 2000 and \$1,995 in 1999 and has varied over the years as a result of changes in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate. The decrease in 2001 is a result of a reduction in the average balance of CWIP, to which AFUDC is applied, due to the completion of a \$35,000 water treatment plant in the third quarter of 2000 and a decrease in the AFUDC rate. The increase in 2000 is a result of an increased average balance of CWIP, to which AFUDC is applied, due to the increased level of capital expenditures in 2000, particularly due to the construction of a \$35,000 water treatment plant. Construction commenced on this facility in 1997 and was completed in 2000.

Merger transaction costs (recovery)

During 2000, a recovery of merger transaction costs of \$2,905 was recognized resulting from the April 2000 rate settlement. These costs were included in a \$6,334 charge that was recorded in 1999 when the CWC merger was completed. The charge represents the fees for investment bankers, attorneys, accountants and other administrative charges.

Income Taxes

Our effective income tax rate was 39.3% in 2001, 39.2% in 2000 and 42.2% in 1999. The effective tax rate was higher in 1999 due to the estimated non-deductible portion of the \$6,334 of merger transaction costs recorded in 1999. Exclusive of the merger transaction costs and related tax benefits of \$200, the 1999 effective tax rate would have been 38.6%. The changes in the effective tax rates in 2001 and 2000 are due to differences between tax deductible expenses and book expenses.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Summary

Operating income was \$134,340 in 2001, \$116,789 in 2000 and \$100,265 in 1999 and net income was \$60,111 in 2001, \$52,890 in 2000 and \$36,384 in 1999. Our operating results have been affected by several non-operating items in 2000 and 1999. Operating income and net income for 2000 includes the gain for the partial recovery of restructuring costs related to the CWC merger of \$1,136 (\$665 after tax or \$0.01 per share) and for 1999 includes the charge for restructuring costs related to the CWC merger of \$3,787 (\$2,462 after tax or \$0.04 per share). Net income for 2000 includes the gain for the partial recovery of merger transaction costs related to the CWC merger of \$2,905 (\$1,571 after tax or \$0.02 per share) and for 1999 includes the charge for \$6,334 (\$6,134 after tax or \$0.09 per share) of merger transaction costs associated with the CWC merger. Diluted net income per share was \$0.87 in 2001, \$0.81 in 2000 and \$0.56 in 1999. Diluted income per share from operations, exclusive of the aforementioned non-recurring items, was \$0.87 in 2001, \$0.77 in 2000 and \$0.70 in 1999. The changes in the per share income in 2001 and 2000 over the previous years were due to the aforementioned changes in income and impacted by a 5.1% and 1.4% increase in the average number of common shares outstanding during 2001 and 2000, respectively.

Although we have experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability.

Fourth Quarter Results

Net income available to common stock was \$12,209 in the fourth quarter of 2001 and \$12,434 in the same period of 2000. The change in net income is due to a \$5,932 increase in operating revenues, and a reduction in interest expense of \$401, offset by \$3,931 of increases in costs and expenses, and \$2,213 of lower gains realized from the sales of other assets in the fourth quarter of 2001 as compared to 2000. The increase in operating revenues was a result of an increase in water rates, additional revenues from acquisitions and non-regulated revenues associated with operating and management contracts and rental income. The decreased interest expense is a result of lower interest rates primarily on short-term borrowings. Operations and maintenance expenses increased primarily due to operating costs associated with acquisitions, higher water production expenses associated with higher water consumption, and increased wage and benefit costs. Depreciation expense increased \$1,303 due to utility plant additions and acquisitions made since the fourth quarter of 2000. The change in the gains realized from the sale of other assets is a result of a pre-tax gain on the sale of marketable securities of \$2,491 being realized in the fourth quarter of 2000 compared to \$211 realized in the fourth quarter of 2001.

Effects of Inflation

As a regulated enterprise, our rates are established to provide recovery of costs and a return on our investment. Recovery of the effects of inflation through higher water rates is dependent upon receiving adequate and timely rate increases. However, rate increases are not retroactive and often lag increases in costs caused by inflation. During periods of moderate to low inflation, as has been experienced for the past several years, the effects of inflation on our operating results are not significant.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Security

In light of recent concerns regarding security in the wake of the September 11, 2001 terrorist attacks, we have increased security measures at our facilities. These increased security measures were not made in response to any specific threat. We are in contact with federal, state and local authorities and industry trade associations regarding current information on possible threats and security measures for water utility operations. The cost of the increased security measures is expected to be fully recoverable in water rates and is not expected to have a material impact on our results from operations or financial condition.

FINANCIAL CONDITION

Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 2001 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1997	\$ 71,252	\$ 26,752	\$ 67,378
1998	84,362	29,349	87,973
1999	74,103	29,217	96,383
2000	86,972	30,406	129,740
2001	102,165	34,234	124,088
	\$ 418,854	\$ 149,958	\$ 505,562

Included in capital expenditures for the five-year period are: expenditures for the modernization and replacement of existing treatment plants; new water mains and customer service lines; rehabilitation of existing water mains, hydrants and customer service lines; water meters; and the construction of a divisional operations center. During this five-year period, we received \$29,052 of customer advances and contributions in aid of construction to finance new water mains and related facilities. In addition, during this period, we have made sinking fund contributions and retired debt in the amount of \$53,921, retired \$7,747 of preferred stock, and have refunded \$20,620 of customer advances for construction. Despite an annual increase in the common dividends declared and paid on our common stock over the past five years, the total common dividends paid in 1999 declined as compared to 1998 due to the exchange of the Consumers Water Company common stock for our common stock.

During the past five years, we have also expended \$92,063 related to the acquisitions of utility systems, primarily water utilities and some wastewater utilities, including the issuance of 976,148 shares of common stock. These acquisitions were accounted for as purchases. In March 1999, we completed a merger with Consumers Water Company. On the date of the merger, we issued 20,334,398 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became our wholly-owned subsidiary. Our common shares issued in the CWC merger have been restated for the effect of the 2001 5-for-4 common stock split in the form of a 25% stock distribution.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The CWC merger has been accounted for as a pooling-of-interests. In 1998, CWC's New Hampshire operations were sold under the New Hampshire condemnation statute for \$33,728, net of certain closing costs, which was used to pay down long-term debt.

Since net operating cash flow plus advances and contributions in aid of construction have not been sufficient to fully fund cash requirements, we issued approximately \$228,752 of First Mortgage Bonds and obtained other short-term borrowings during the past five years. In September 2000, we sold 2,066,406 shares of common stock in a public offering for net proceeds of \$29,689. The proceeds of this offering were used to make an equity contribution to PSW. In 1998, we sold 1,953,125 shares of common stock in a public offering for net proceeds of \$25,840. The proceeds of this offering were used to make a \$19,000 equity contribution to PSW and to repay short-term debt. At December 31, 2001, we had short-term lines of credit and other credit facilities of \$195,500, of which \$85,832 was available. Our short-term lines of credit and other credit facilities are either payable on demand or have a 364-day term.

We offer a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that provides a convenient and economical way to purchase shares of Philadelphia Suburban Corporation. Under the direct stock purchase portion of the Plan, shares are sold throughout the year and the shares are obtained by our transfer agent in the open market. The dividend reinvestment portion of the Plan offers a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 2001 dividend payment, holders of 17.5% of the common shares outstanding participated in the dividend reinvestment portion of the Plan. During the past five years, we have sold 2,246,563 original issue shares of common stock for net proceeds of \$28,028 through the dividend reinvestment portion of the Plan and the proceeds were used to invest in our operating subsidiaries, to relieve our operating subsidiaries of the need to pay a dividend to us, to repay short-term debt, and for general corporate purposes.

The Board of Directors has authorized us to purchase our common stock, from time to time, in the open market or through privately negotiated transactions. There were no shares repurchased in 2001 in the open market or through privately negotiated transactions. We purchased 288,750 shares in 2000 and 127,188 shares in 1999 at a net cost of \$3,500 in 2000 and \$1,771 in 1999. For comparative purposes the number of shares purchased is presented as if they were adjusted for the effect of the 2001 5-for-4 common stock split in the form of a 25% stock distribution. As of December 31, 2001, 328,967 shares remain available for repurchase. Funding for future stock purchases, if any, is not expected to have a material impact on our financial position.

As of December 31, 2001, our contractual cash obligations are as follows:

	Payments Due By Period						Total
	2002	2003	2004	2005	2006	Thereafter	
Long-term debt	\$ 14,935	\$ 34,945	\$ 39,972	\$ 40,961	\$ 17,130	\$ 383,512	\$ 531,455
Operating leases	1,901	1,655	1,140	795	651	15,907	22,049
Unconditional purchase obligations	7,205	8,098	8,098	6,919	6,811	36,947	74,078
Total	\$ 24,041	\$ 44,698	\$ 49,210	\$ 48,675	\$ 24,592	\$ 436,366	\$ 627,582

The amounts reported as long-term debt in the above table represent sinking fund obligations and debt maturities that are due in the periods noted. We lease motor vehicles, buildings, land and other equipment under operating leases that are noncancelable. The unconditional purchase obligations represent our commitment to purchase minimum quantities of water as stipulated in agreements with

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

municipal authorities. We use purchased water to supplement our water supply, particularly during periods of peak customer demand. In addition to these obligations, we make refunds on Customers' Advances for Construction over a specific period of time based on operating revenues related to developer-installed water mains or as new customers are connected to and take service from such mains. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. The refund amounts are not included in the above table because the refund amounts and timing cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these refund amounts are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable.

Our planned 2002 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$120,021 of which \$38,959 is for DSIC-qualified projects in Pennsylvania and QIPS-qualified projects in Illinois. We have increased our capital spending for infrastructure rehabilitation in response to the DSIC and QIPS and should these infrastructure surcharge mechanisms be discontinued for any reason, which is not anticipated, we would likely reduce our capital program significantly. Our 2002 capital program, along with \$14,935 of sinking fund obligations and debt maturities, and \$9,106 of other contractual cash obligations, is expected to be financed through internally-generated funds, our revolving credit facilities, our equity investments and the issuance of new long-term debt.

Future utility construction in the period 2003 through 2006, including recurring programs, such as the ongoing replacement of water meters, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately \$500,000. We anticipate that less than one-half of these expenditures will require external financing including the additional issuance of Common Stock through our dividend reinvestment plan and possible future public equity offerings. We expect to refinance \$133,008 of sinking fund obligations and debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

We continue to hold acquisition discussions with several water systems. Acquisitions are expected to be financed through the issuance of equity or funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or proceeds from equity offerings.

Our primary source of liquidity is cash flows from operations, borrowings under various short-term lines of credit and other credit facilities, and advances and contributions in aid of construction. Our cash flow from operations, or internally-generated funds, is impacted by the timing of rate relief and water consumption. We fund our capital and acquisition programs through internally-generated funds, supplemented by short-term borrowings. Over time, we refinance our short-term borrowings with long-term debt and proceeds from the issuance of common stock. The ability to finance our future construction programs, as well as our acquisition activities, depends on our ability to attract the necessary external financing and maintain or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required by our operating subsidiaries to achieve an adequate level of earnings to enable them to secure the capital they will need and to maintain satisfactory debt coverage ratios.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Market Risk

We are subject to market risks in the normal course of business, including changes in interest rates and equity prices. The exposure to changes in interest rates is a result of financings through the issuance of fixed-rate, long-term debt. Such exposure is typically related to financings between utility rate increases, since generally our rate increases provide a revenue level to allow recovery of our current cost of capital. Interest rate risk is managed through the use of a combination of long-term debt, which is at fixed interest rates and short-term debt, which is at floating interest rates. As of December 31, 2001, the debt maturities by period and the weighted average interest rate for fixed-rate, long-term debt are as follows:

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

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

Capitalization

The following table summarizes our capitalization during the past five years:

December 31,	2001	2000	1999	1998	1997
Long-term debt*	52.9%	52.4%	53.8%	51.9%	56.9%
Preferred stock*	0.1%	0.2%	0.2%	0.4%	1.0%
Common stockholders' equity	47.0%	47.4%	46.0%	47.7%	42.1%
	100.0%	100.0%	100.0%	100.0%	100.0%

*Includes current portion.

The changes in the capitalization ratios primarily result from the issuance of common stock over the past five years and the issuance of debt to finance our acquisitions and capital program. It is our goal to maintain an equity ratio adequate to support PSW's current Standard and Poors corporate credit rating of "A+" and its senior secured debt rating of "AA-".

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Dividends on Common Stock

We have paid common dividends consecutively for 57 years. In 2001, our Board of Directors authorized an increase of 6.9% in the dividend rate over the amount we previously paid. As a result of this authorization, beginning with the dividend payment in December 2001, the annual dividend rate increased to \$0.53 per share. We presently intend to pay quarterly cash dividends in the future, on March 1, June 1, September 1 and December 1, subject to our earnings and financial condition, regulatory requirements and such other factors as our Board of Directors may deem relevant. During the past five years, after restatement for the 1999 CWC pooling, our common dividends paid have averaged 65.3% of income from continuing operations.

CRITICAL ACCOUNTING POLICIES

Our financial condition and results of operations are impacted by the methods, assumptions, and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to our financial condition or results of operations, and require estimates or other judgements of matters of uncertainty. Changes in the estimates or other judgements included within these accounting policies could result in a significant change to the financial statements. We believe our most critical accounting policies include revenue recognition, the use of regulatory assets and liabilities as permitted by Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation", the review for impairment of our long-lived assets which consist primarily of Utility Plant in Service and regulatory assets, and our accounting for pensions and other postretirement benefits.

Our utility revenues recognized in an accounting period include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the last billing to the end of the accounting period. The estimated usage is based on our judgement and assumptions; our actual results could differ from these estimates which would result in operating revenues being adjusted in the period that the revision to our estimates are determined.

SFAS No. 71 stipulates generally accepted accounting principles for companies whose rates are established by or are subject to approval by an independent third-party regulator. In accordance with SFAS No. 71, we defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that these costs and credits will be recognized in the rate-making process in a period different from when the costs and credits were incurred. These deferred amounts, both assets and liabilities, are then recognized in the income statement in the same period that they are reflected in our rates charged for water and wastewater service. In the event that our assessment as to the probability of the inclusion in the rate-making process is incorrect, the associated regulatory asset or liability would be adjusted to reflect the change in our assessment or change in regulatory approval.

In accordance with the requirements of SFAS No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", we review for impairment of our long-lived assets, including Utility Plant in Service. We also review regulatory assets for the continued application of SFAS No. 71. Our review determines whether there have been changes in circumstances or events that have occurred that require adjustments to the carrying value of these assets. In accordance with SFAS No. 71, adjustments to the carrying value of these assets would be made in instances where the inclusion in the rate-making process is unlikely.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

We have defined benefit plans that cover our full-time employees and we offer certain postretirement benefits other than pensions to our employees retiring with a minimum level of service. Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by our employees, mortality, turnover and medical costs. While our actuarial consultants provide guidance in establishing the assumptions, the assumptions that we use may differ materially from actual results due to changes in actual circumstances, conditions or experience. These differences will impact the amount of pension and other postretirement benefit expense that we recognize. We expect future changes in the amount of expense recognized will be properly included in the rate-making process.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in June 1999 amended this standard by issuing SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 137 changed the timing of the implementation of SFAS No. 133. The adoption of these statements on January 1, 2001 did not have a material impact on our results of operations or financial condition. As of December 31, 2001, we had no derivative instruments or hedging activities.

In June 2001, the FASB approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. We adopted SFAS No. 142 on January 1, 2002 as required, and this statement applies to all goodwill and other intangible assets recorded on our balance sheet at that date, regardless of when those assets were originally recorded. We adopted SFAS No. 141 on July 1, 2001 and it did not have a material impact on our results of operations or financial position.

In July 2001, the FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. We intend to adopt this statement as required in 2003. We are currently evaluating the provisions of this statement and have not yet determined the effect of adoption on our results of operations or financial position.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." We adopted SFAS No. 144 on January 1, 2002 as required and it did not have a material impact on our results of operations or financial position.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Report of Management

The consolidated financial statements and related information for the years ended December 31, 2001, 2000 and 1999 were prepared by management in accordance with accounting principles generally accepted in the United States of America and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

The Company has an internal accounting control structure designed to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and recorded in accordance with established policies and procedures. The internal control structure is supported by the selection and training of qualified personnel, the delegation of management authority and responsibility and dissemination of policies and procedures.

The Company's independent accountants, PricewaterhouseCoopers LLP, provide an independent review of management's reporting of results of operations and financial condition. PricewaterhouseCoopers has audited the financial statements by conducting tests as they deemed appropriate and their report follows.

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is comprised of three outside Directors who meet periodically with management, our internal audit director and the independent auditors. The Audit Committee held two meetings in 2001.



Nicholas DeBenedictis
Chairman &
President

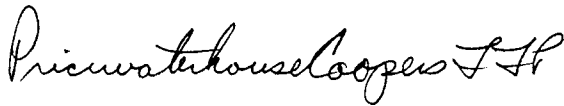


David P. Smeltzer
Senior Vice President - Finance

Report of Independent Accountants

To the Board of Directors and Stockholders of
Philadelphia Suburban Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of capitalization and of cash flow present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. The financial statements of the Company as of December 31, 1999 and for the year then ended were audited by other independent accountants whose report dated January 31, 2000 expressed an unqualified opinion on those statements.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP
Philadelphia, PA
February 1, 2002

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(In thousands, except per share amounts)
Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Operating revenues	\$ 307,280	\$ 274,014	\$ 256,546
Costs and expenses:			
Operations and maintenance	111,885	101,741	98,758
Depreciation	37,979	32,271	30,612
Amortization	2,189	1,829	1,291
Taxes other than income taxes	20,887	22,520	21,833
Restructuring costs (recovery)	-	(1,136)	3,787
	<u>172,940</u>	<u>157,225</u>	<u>156,281</u>
Operating income	134,340	116,789	100,265
Other expense (income):			
Interest expense, net	39,859	40,360	33,698
Allowance for funds used during construction	(1,222)	(2,688)	(1,995)
Gain on sale of other assets	(3,384)	(5,076)	(780)
Merger transaction costs (recovery)	-	(2,905)	6,334
Dividends on preferred stock of subsidiary and minority interest	-	103	93
Income before income taxes	<u>99,087</u>	<u>86,995</u>	<u>62,915</u>
Provision for income taxes	38,976	34,105	26,531
Net income	<u>60,111</u>	<u>52,890</u>	<u>36,384</u>
Dividends on preferred stock	106	106	109
Net income available to common stock	<u>\$ 60,005</u>	<u>\$ 52,784</u>	<u>\$ 36,275</u>
Net income	\$ 60,111	\$ 52,890	\$ 36,384
Other comprehensive income (loss), net of tax:			
Unrealized gains on securities	39	908	2,020
Reclassification adjustment for gains reported in net income	(239)	(2,002)	-
	<u>(200)</u>	<u>(1,094)</u>	<u>2,020</u>
Comprehensive income	<u>\$ 59,911</u>	<u>\$ 51,796</u>	<u>\$ 38,404</u>
Net income per common share:			
Basic	\$ 0.88	\$ 0.82	\$ 0.57
Diluted	<u>\$ 0.87</u>	<u>\$ 0.81</u>	<u>\$ 0.56</u>
Average common shares outstanding during the period:			
Basic	67,873	64,759	63,850
Diluted	<u>68,755</u>	<u>65,414</u>	<u>64,539</u>

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 2001 and 2000

	2001	2000
Assets		
Property, plant and equipment, at cost	\$ 1,677,061	\$ 1,536,162
Less accumulated depreciation	308,946	284,735
Net property, plant and equipment	<u>1,368,115</u>	<u>1,251,427</u>
Current assets:		
Cash and cash equivalents	1,010	4,087
Accounts receivable and unbilled revenues, net	56,331	50,242
Inventory, materials and supplies	4,446	4,352
Prepayments and other current assets	8,085	7,054
Total current assets	<u>69,872</u>	<u>65,735</u>
Regulatory assets	79,669	67,470
Deferred charges and other assets, net	22,915	25,129
Funds restricted for construction activity	19,768	3,962
	<u>\$ 1,560,339</u>	<u>\$ 1,413,723</u>
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,116	\$ 1,760
Common stock at \$.50 par value, authorized 100,000,000 shares, issued 69,300,346 and 67,939,281 in 2001 and 2000	34,650	27,260
Capital in excess of par value	304,039	291,013
Retained earnings	149,682	123,911
Minority interest	787	2,823
Treasury stock, at cost, 913,877 and 844,376 shares in 2001 and 2000	(17,167)	(15,346)
Accumulated other comprehensive income	726	926
Total stockholders' equity	<u>473,833</u>	<u>432,347</u>
Long-term debt, excluding current portion	516,520	468,769
Commitments	-	-
Current liabilities:		
Current portion of long-term debt	14,935	3,943
Loans payable	109,668	100,994
Accounts payable	27,667	20,635
Accrued interest	10,199	10,199
Accrued taxes	22,865	15,815
Other accrued liabilities	17,301	21,310
Total current liabilities	<u>202,635</u>	<u>172,896</u>
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	167,577	151,718
Customers' advances for construction	59,886	58,718
Other	9,204	9,109
Total deferred credits and other liabilities	<u>236,667</u>	<u>219,545</u>
Contributions in aid of construction	130,684	120,166
	<u>\$ 1,560,339</u>	<u>\$ 1,413,723</u>

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2001 and 2000

	2001	2000
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 1,116	\$ 1,760
Common stock, \$.50 par value	34,650	27,260
Capital in excess of par value	304,039	291,013
Retained earnings	149,682	123,911
Minority interest	787	2,823
Treasury stock, at cost	(17,167)	(15,346)
Accumulated other comprehensive income	726	926
Total stockholders' equity	<u>473,833</u>	<u>432,347</u>
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
Interest Rate Range		
0.00% to 2.49%	8,325	4,368
2.50% to 4.99%	9,023	6,712
5.00% to 5.49%	50,545	6,667
5.50% to 5.99%	30,660	31,060
6.00% to 6.49%	160,525	145,570
6.50% to 6.99%	55,200	55,200
7.00% to 7.49%	60,000	62,007
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,595	16,621
8.50% to 8.99%	9,000	10,460
9.00% to 9.49%	53,535	53,615
9.50% to 9.99%	46,031	49,831
10.00% to 10.50%	6,000	6,167
Total First Mortgage Bonds	<u>529,439</u>	<u>471,278</u>
Note payable, 6.05%, due 2006	644	-
Installment note payable, 9%, due in equal annual payments through 2013	<u>1,372</u>	<u>1,434</u>
	531,455	472,712
Current portion of long-term debt	14,935	3,943
Long-term debt, excluding current portion	<u>516,520</u>	<u>468,769</u>
Total capitalization	<u>\$ 990,353</u>	<u>\$ 901,116</u>

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS

(In thousands of dollars)

Years ended December 31, 2001, 2000 and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income	\$ 60,111	\$ 52,890	\$ 36,384
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	40,168	34,100	31,903
Deferred income taxes	14,935	10,885	6,342
Gain on sale of other assets	(3,384)	(5,076)	(780)
Net increase in receivables, inventory and prepayments	(5,295)	(5,531)	(3,073)
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	7,045	4,247	444
Payment of Competitive Transition Charge	(11,465)	-	-
Other	50	(4,543)	2,380
Net cash flows from discontinued operations	-	-	503
Net cash flows from operating activities	<u>102,165</u>	<u>86,972</u>	<u>74,103</u>
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$1,222, \$2,688 and \$1,995	(124,088)	(129,740)	(96,383)
Acquisitions of water and wastewater systems	(9,517)	(3,546)	(39,164)
Net increase in funds restricted for construction activity	(15,806)	(3,962)	-
Net proceeds from the sale (purchases) of other assets	5,211	5,896	(4,789)
Other	(173)	(1,711)	(280)
Net cash flows used in investing activities	<u>(144,373)</u>	<u>(133,063)</u>	<u>(140,616)</u>
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	5,175	7,603	5,345
Repayments of customers' advances	(4,652)	(4,642)	(4,077)
Net proceeds (repayments) of short-term debt	8,385	(14,075)	39,519
Proceeds from long-term debt	64,024	67,791	54,412
Repayments of long-term debt	(8,498)	(13,289)	(6,733)
Redemption of preferred stock of subsidiary	(1,349)	-	-
Redemption of preferred stock	(644)	-	(1,460)
Proceeds from issuing common stock	13,522	37,190	7,061
Repurchase of common stock	(2,493)	(4,383)	(1,773)
Dividends paid on preferred stock	(106)	(106)	(117)
Dividends paid on common stock	(34,234)	(30,406)	(29,217)
Other	1	(163)	(36)
Net cash flows from financing activities	<u>39,131</u>	<u>45,520</u>	<u>62,924</u>
Net decrease in cash and cash equivalents	(3,077)	(571)	(3,589)
Cash and cash equivalents at beginning of year	4,087	4,658	8,247
Cash and cash equivalents at end of year	<u>\$ 1,010</u>	<u>\$ 4,087</u>	<u>\$ 4,658</u>
Cash paid during the year for:			
Interest, net of amounts capitalized	\$ 38,637	\$ 36,507	\$ 31,036
Income taxes	<u>\$ 19,388</u>	<u>\$ 23,008</u>	<u>\$ 20,313</u>

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Merger with Consumers Water Company, Acquisitions and Water Sale Agreements and Employee Stock and Incentive Plans footnotes for description of non-cash activities.

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Summary of Significant Accounting Policies

Basis of Presentation - On March 10, 1999, Philadelphia Suburban Corporation (the "Company" or "PSC") completed a merger (the "Merger") with Consumers Water Company ("CWC"). On the date of the Merger, the Company issued 20,334,398 shares of Common Stock in exchange for all of the outstanding shares of CWC and CWC became a wholly-owned subsidiary of the Company. The Company's common shares issued and exchanged for CWC shares have been restated for the effect of the 2001 5-for-4 common stock split effected in the form of a stock distribution. The Merger has been accounted for as a pooling-of-interests under Accounting Principles Board Opinion No. 16. Accordingly, the Company's consolidated financial statements and footnotes presented in this report include the accounts and results of CWC as if the Merger had been completed as of the beginning of the earliest period presented.

Nature of Operations - The business of Philadelphia Suburban Corporation is conducted primarily through its wholly-owned subsidiary Pennsylvania Suburban Water Company ("PSW") and the four operating companies of CWC (collectively referred to as "operating companies"). The operating companies of PSC are regulated public utilities which supply water and provide wastewater service to 602,510 customers in Pennsylvania, Ohio, Illinois, New Jersey, Maine and North Carolina. The customers of our operating companies are residential, commercial and industrial in nature. PSW, our largest subsidiary, is a regulated public utility which supplies water to approximately 336,700 customers, principally in the suburban areas north and west of the City of Philadelphia and in ten other counties in western, north central and northeastern Pennsylvania. In January 2002, Philadelphia Suburban Water Company and various other wholly-owned Pennsylvania operating subsidiaries were merged together into Pennsylvania Suburban Water Company. For operational purposes, these entities will continue to do business under their former names. For discussion purposes, all references to PSW relate to Pennsylvania Suburban Water Company or its predecessor companies. CWC owns 100% of the voting stock of three water companies and at least 99% of the voting stock of one water company. In addition, the Company provides water and wastewater service to approximately 15,000 customers through operating and maintenance contracts in Pennsylvania, Illinois, New Jersey and Maine.

Regulation - The operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Regulated public utilities follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by state regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated where appropriate.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Non-utility revenues are recognized when services are performed.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2001, utility plant includes a net credit acquisition adjustment of \$9,043, which is being amortized over 20 to 40 years. Consistent with the Company's rate settlements, \$545 was amortized during 2001, \$541 was amortized during 2000 and \$558 was amortized during 1999.

Utility expenditures for maintenance and repairs, including minor renewals and betterments, are charged to operating expenses in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized. When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, have been reviewed for impairment. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds was \$334 in 2000 and \$57 in 1999. There was no AFUDC related to equity funds in 2001.

Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized by the straight-line method over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery in accordance with SFAS No. 71.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities and the amounts at which they are carried in the

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse the Company for its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of \$10,196, \$6,060 and \$10,069 in 2001, 2000 and 1999.

Contributions in Aid of Construction - Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is determined using the first-in, first-out method and the average cost method.

Stock-Based Compensation - The Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", electing the provision of the statement allowing it to continue its practice of not recognizing compensation expense related to granting of stock options to the extent that the option price of the underlying stock was equal to, or greater than, the market price on the date of option grant. Disclosure of the impact on the results of operations, had the Company elected to recognize compensation expense, is provided in the Employee Stock and Incentive Plans footnote as required by the Statement.

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year's presentation.

Recent Accounting Pronouncements - In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and in June 1999 amended this standard by issuing SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." In September 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment to SFAS No. 133. SFAS No. 138 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 137 changed the timing of the implementation of SFAS No. 133. The adoption of these statements on January 1, 2001 did not have a material impact on the Company's results of operations or financial condition. As of December 31, 2001, the Company had no derivative instruments or hedging activities.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

In June 2001, the FASB approved SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. The Company adopted SFAS No. 142 on January 1, 2002 as required, and this statement applies to all goodwill and other intangible assets recorded on our balance sheet at that date, regardless of when those assets were originally recorded. The adoption of SFAS No. 141 on July 1, 2001 did not have a material impact on the Company's results of operations or financial position.

In July 2001, the FASB approved SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The Company intends to adopt this statement as required in 2003. The Company is currently evaluating the provisions of this statement and has not yet determined the effect of adoption on its results of operations or financial position.

In August 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The adoption of SFAS No. 144 on January 1, 2002 did not have a material impact on the Company's results of operations or financial position.

Merger with Consumers Water Company

On March 10, 1999, the Company completed a merger ("the Merger") with CWC. Pursuant to the merger agreement, the Company issued 20,334,398 shares of Common Stock in exchange for all of the outstanding stock of CWC. CWC common shareholders received 2.2 shares of the Company's Common Stock for each CWC common share and CWC preferred shareholders received 8.8 shares of the Company's Common Stock for each CWC preferred share. The Company's common shares issued and exchanged for CWC shares have been restated for the effect of the 2001 5-for-4 common stock split effected in the form of a 25% stock distribution. As a result of the Merger, CWC became a wholly-owned subsidiary of the Company. CWC's water companies serve approximately 245,000 customers in service territories covering parts of five states in which we operate.

During 1999, the Company recorded a charge of \$6,334 (\$6,134, after tax benefits of \$200) for merger transaction costs consisting primarily of fees for investment bankers, attorneys, accountants and other administrative charges. In addition, the Company recorded a restructuring reserve of \$3,787 (\$2,462, after tax benefits of \$1,325) in 1999 that includes severances of \$2,940 and exit costs associated with the closing of CWC's corporate office. Since the restructuring reserve was established, cash payments have substantially eliminated this reserve balance during the first half of 2000. In connection with a rate settlement received in 2000, recovery of a portion of the merger costs has been granted and a regulatory asset was established to reflect this recovery. As a result, a gain on recovery of merger costs of \$2,236 (\$4,041 pre-tax) was recognized in 2000. The merger transaction costs and related recovery have been reported in Other expenses and the restructuring costs and related recovery have been reported as Costs and expenses in the Consolidated Statements of Income and Comprehensive Income.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Acquisitions and Water Sale Agreements

During 2001, the Company completed 20 acquisitions or other growth ventures in the various states in which the Company operates. The total purchase price of \$14,878 for the systems acquired in 2001 consisted of \$9,517 in cash and the issuance of 331,710 shares of the Company's common stock. The increase in annual revenues resulting from the acquired systems approximate \$4,699 (unaudited) and operating revenues included in the consolidated financial statements during the period owned by the Company was \$3,432.

During 2000, the Company completed 18 acquisitions or other growth ventures, including the Company's entry into a sixth state, North Carolina. The total purchase price of \$11,840 for the systems acquired in 2000 consisted of \$3,546 in cash and the issuance of 578,813 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2000 were \$2,623 in 2001 and \$394 in 2000.

During 1999, exclusive of the Merger, the Company completed 16 acquisitions or other growth ventures in the various states where the Company operates. The total purchase price for the systems acquired in 1999 was \$39,164 in cash. Operating revenues included in the consolidated financial statements related to the systems acquired in 1999 were \$5,101 in 2001, \$4,808 in 2000 and \$559 in 1999.

Property, Plant and Equipment

	December 31,	
	2001	2000
Utility plant and equipment	\$ 1,622,788	\$ 1,513,480
Utility construction work in progress	51,531	19,820
Non-utility plant and equipment	2,742	2,862
Total property, plant and equipment	<u>\$ 1,677,061</u>	<u>\$ 1,536,162</u>

Depreciation is computed based on estimated useful lives of 2 to 110 years for utility plant and 3 to 10 years for both utility transportation and mechanical equipment and all non-utility plant, office equipment and laboratory equipment.

Accounts Receivable

	December 31,	
	2001	2000
Billed utility revenue	\$ 33,476	\$ 30,846
Unbilled utility revenue	23,493	20,645
Other	1,844	658
	<u>58,813</u>	<u>52,149</u>
Less allowance for doubtful accounts	2,482	1,907
Net accounts receivable	<u>\$ 56,331</u>	<u>\$ 50,242</u>

The Company's customers are located in the following states: 65% in Pennsylvania, 14% in Ohio, 11% in Illinois, 6% in New Jersey, 3% in Maine and 1% in North Carolina. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2001, 2000 or 1999.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

Regulatory Assets

The regulatory assets represent costs that are excluded from the Company's rate base but are expected to be fully recovered in future rates. The components of this asset are as follows:

	December 31,	
	2001	2000
Income taxes	\$ 61,080	\$ 58,650
Competitive Transition Charge payment	10,319	-
Postretirement benefits	1,374	1,685
Merger costs	3,759	4,308
Water tank painting	2,088	1,657
Rate case filing expenses and other	1,049	1,170
	<u>\$ 79,669</u>	<u>\$ 67,470</u>

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. The regulatory asset associated with the Competitive Transition Charge payment represents the full pay off in 2001, net of amortization, of the allocable share of a Competitive Transition Charge ("CTC") as negotiated by PSW from its electric distribution company, PECO Energy Company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. The \$11,465 CTC payment is expected to be recovered in future water rates over 10 years. Postretirement benefits include pension and other postretirement benefits. The pension costs are deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates. The regulatory asset related to the recovery of merger costs represents the portion of the CWC merger costs that will be recovered in rates as a result of a rate settlement in 2000 and is being amortized over the recovery period. Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to three years.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2001	2000	1999
Current:			
Federal	\$ 18,935	\$ 19,888	\$ 15,233
State	5,106	4,900	3,695
	24,041	24,788	18,928
Deferred:			
Federal	13,048	8,371	6,862
State	1,887	946	741
	14,935	9,317	7,603
Total tax expense	\$ 38,976	\$ 34,105	\$ 26,531

The statutory Federal tax rate is 35% and the state corporate net income tax rates range from 7.18% to 9.99% for all years presented. The Company's Federal income tax returns for all years through 1997 have been closed.

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

	Years Ended December 31,		
	2001	2000	1999
Computed Federal tax expense at statutory rate	\$ 34,680	\$ 30,448	\$ 22,020
Increase in tax expense for depreciation expense to be recovered in future rates	452	353	387
Merger transaction costs	-	120	2,017
Charitable contribution	-	(83)	(479)
Gain on sale of land	-	-	83
Amortization of deferred investment tax credits	(276)	(287)	(279)
Prior year rate reductions	(322)	(311)	(313)
State income taxes, net of federal tax benefit	4,545	3,799	2,883
Other, net	(103)	66	212
Actual income tax expense	\$ 38,976	\$ 34,105	\$ 26,531

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

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

	December 31,	
	2001	2000
Deferred tax assets:		
Customers' advances for construction	\$ 18,060	\$ 19,120
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	1,689	5,064
Other	290	-
Total gross deferred tax assets	20,039	24,184
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	156,332	143,615
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	23,626	23,344
Deferred investment tax credit	7,219	7,498
Unrealized gain on marketable securities	439	547
Other	-	898
Total gross deferred tax liabilities	187,616	175,902
Net deferred tax liability	\$ 167,577	\$ 151,718

Commitments

The Company maintains agreements with municipal authorities for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases are expected to approximate \$7,426 through 2006. The Company purchased approximately \$5,807, \$5,592 and \$3,172 of water under these agreements during the years ended December 31, 2001, 2000 and 1999, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. During the next five years, \$4,271 of future minimum lease payments are due: \$1,526 in 2002, \$1,281 in 2003, \$766 in 2004, \$421 in 2005 and \$277 in 2006. PSW leases parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The two operating leases are noncancelable, expire in 2045 and 2052 and contain certain renewal provisions. The leases are subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, \$374 of lease payments for land, subject to the aforesaid adjustment, are due.

Rent expense was \$2,281, \$1,815 and \$1,894 for the years ended December 31, 2001, 2000 and 1999, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 2001 and 2000. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW and CWC to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's and CWC's stock. As of December 31, 2001, approximately \$203,000 of PSW's and \$49,000 of CWC's retained earnings were free of these restrictions. Certain supplemental indentures also prohibit PSW and CWC from making loans to, or purchasing the stock of, the Company.

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. The future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

Interest Rate Range	2002	2003	2004	2005	2006	Thereafter
0.00% to 2.49%	\$ 395	\$ 387	\$ 394	\$ 396	\$ 381	\$ 6,372
2.50% to 4.99%	347	357	362	372	381	7,204
5.00% to 5.49%	60	60	70	70	75	50,210
5.50% to 5.99%	400	10,000	10,000	-	-	10,260
6.00% to 6.49%	10,000	-	15,000	-	644	135,525
6.50% to 6.99%	-	10,400	400	10,400	10,400	23,600
7.00% to 7.49%	2,000	12,000	12,000	28,000	2,000	4,000
7.50% to 7.99%	-	-	-	-	-	23,000
8.00% to 8.49%	31	33	31	-	-	17,500
8.50% to 8.99%	-	-	-	-	-	9,000
9.00% to 9.49%	548	554	561	568	576	52,100
9.50% to 9.99%	1,154	1,154	1,154	1,155	2,673	38,741
10.00% to 10.50%	-	-	-	-	-	6,000
Total	<u>\$ 14,935</u>	<u>\$ 34,945</u>	<u>\$ 39,972</u>	<u>\$ 40,961</u>	<u>\$ 17,130</u>	<u>\$ 383,512</u>

PSW has a five-year \$300,000 medium-term note program through December 2004 that provides for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. The notes issued under this program are secured by the Thirty-Third Supplement to the trust indenture relating to PSW's First Mortgage Bonds. In October 2001, PSW issued First Mortgage Bonds through the program of \$15,000 6.21% Series due 2011. In January 2000, PSW issued First Mortgage Bonds through the program of \$15,000 7.40% Series due 2005, and in April 2000, \$11,000 7.40% Series due 2005. The proceeds from these issuances were used to fund acquisitions, to reduce the balance of PSW's short-term debt and for PSW's ongoing capital program.

In September 2001, one of CWC's operating subsidiaries issued \$12,000 of tax-exempt bonds due in 2031 at a rate of 5.00%. In November 2001, PSW issued \$30,000 in First Mortgage Bonds 5.35% Series due 2031 as security for an equal amount of Bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds are restricted to funding the costs of certain capital projects. At various times during 2001, PSW and other operating subsidiaries issued notes payable in aggregate of \$6,725 at a weighted average interest rate of 2.8% due at various times in 2006, 2021, 2022 and 2031. The proceeds from the notes payable issued in 2001 were used to reduce a portion of the balance of short-term debt at each of the respective operating subsidiaries, to redeem \$2,400 of 9.6% First Mortgage Bonds of one

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

of CWC's operating subsidiaries through an early redemption, and redeem PSC preferred stock of \$644. As of December 31, 2001, the Trustees for seven issues held \$19,768 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity.

In June 2000, PSW issued \$18,360 of tax-exempt bonds due in 2030 at a rate of 6.00%. At various times during 2000, PSW and other operating subsidiaries issued notes payable in aggregate of \$12,583 at various rates of interest ranging from 0% to 5.4% due at various times in 2019, 2020, and 2030. The proceeds from the other issues were used to reduce a portion of the balance of short-term debt at each of the respective operating subsidiaries. In connection with various acquisitions completed during 2000, the Company acquired \$3,102 of long-term debt at various rates of interest ranging from 1% to 10.5% due in various years. During 2001, a substantial portion of this debt has been refinanced with lower-cost debt. The pro forma weighted cost of long-term debt at December 31, 2001 and 2000 was 7.0% and 7.2%, respectively.

PSW has a \$70,000 364-day revolving credit facility with four banks and CWC has a \$20,000 364-day bank revolving credit facility. Funds borrowed under these agreements are classified as loans payable and are used to provide working capital. The PSW facility replaced an expiring facility of \$50,000 and has been increased in order to consolidate borrowings of the Pennsylvania operating subsidiaries and reduce the short-term lines of credit. As of December 31, 2001 and 2000, funds borrowed under the PSW revolving credit agreements were \$64,882 and \$46,270, respectively, and \$13,500 and \$12,000 were borrowed under the CWC revolving credit agreement, respectively. Interest under these facilities is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. These agreements restrict the total amount of short-term borrowings of PSW and CWC. A commitment fee ranging from 1/4 to 1/10 of 1% is charged on the unused portion of the revolving credit agreements. The average cost of borrowing under these facilities was 4.5% and 6.8%, and the average borrowing was \$60,417 and \$56,541, during 2001 and 2000, respectively. The maximum amount outstanding at the end of any one month was \$78,382 in 2001 and \$64,000 in 2000.

At December 31, 2001 and 2000, the Company had combined short-term lines of credit of \$105,500 and \$120,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was \$61,232 and \$49,901 during 2001 and 2000, respectively. The maximum amount outstanding at the end of any one month was \$76,858 in 2001 and \$58,878 in 2000. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2001 and 2000 was 5.2% and 7.3%, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

Preferred Stock of Subsidiaries

The Company's subsidiaries have preferred stock (\$100 par value) authorized as of December 31, 2001:

	Cumulative Dividend Rate	Current Call Price Per Share	Shares Authorized	Shares Outstanding
Consumers Illinois Water Company	5.50%	107	5,000	3,575
Consumers Maine Water Company	-	None	4,000	-

During 2001, Consumers Maine Water Company called and retired 2,739 shares of its preferred stock for an aggregate amount of \$288 and Consumers Pennsylvania – Shenango Valley Division called and substantially retired 9,646 shares of preferred stock for an aggregate amount of \$1,061.

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31,	
	2001	2000
Carrying amount	\$ 531,455	\$ 472,712
Estimated fair value	562,740	475,330

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of \$59,886 and \$58,718 at December 31, 2001 and 2000, respectively. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

Stockholders' Equity

At December 31, 2001, the Company had 1,770,819 shares of Series Preferred Stock with a \$1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated 32,200 shares as Series B Preferred Stock, \$1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. In 1996, the Company issued all of the 6.05% Series B Preferred Stock in connection with an acquisition. The Series B Preferred Stock is recorded on the balance sheet at its liquidation value of \$100 per share. Dividends on the Series B Preferred Stock are cumulative and payable quarterly. PSC may not pay dividends on common stock unless provision has been made for payment of the preferred dividends. Under the provisions of this issue, the holders may redeem the shares, in whole or in part, at the liquidation value beginning December 1, 1998 and the Company may redeem up to 20% of this issue each year beginning December 1, 2001 and, at the holders' option, this redemption may be made in cash or through the issuance of debt with a five year maturity at an interest rate of 6.05%. As of December 31, 2001, all dividends have been provided for. In January 1999, 14,600 shares of Series B Preferred Stock were redeemed in cash at the liquidation value of \$100 per share. In December 2001, 6,440 shares of Series B Preferred Stock were redeemed at the liquidation value of \$100 per share and the holder chose to receive a five year note for the redemption proceeds of \$644 at an interest rate of 6.05%. In January 2002, an additional 3,000 shares were redeemed at the holders' option in cash at the liquidation value of \$100 per share.

In August 2001, the Company's Board of Director's declared a 5-for-4 common stock split effected in the form of a 25% stock distribution for all common shares outstanding, to shareholders of record on November 16, 2001. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on December 1, 2001. The Company's par value of \$0.50 per share remained unchanged and \$6,829 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

At December 31, 2001, the Company had 100,000,000 shares of common stock authorized; par value \$0.50. Shares outstanding at December 31, 2001, 2000 and 1999 were 68,386,469, 67,094,905 and 64,082,197 respectively. Treasury shares held at December 31, 2001, 2000 and 1999 were 913,877, 844,376, and 615,038, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

The following table summarizes the activity of common stockholders' equity:

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 1998	\$ 20,617	\$ (9,478)	\$ 244,457	\$ 91,683	\$ -	\$ 347,279
Net income	-	-	-	36,275	-	36,275
Other comprehensive income, net of income tax of \$1,433	-	-	-	-	2,020	2,020
Dividends	-	-	-	(26,425)	-	(26,425)
Sale of stock	114	354	4,807	-	-	5,275
Repurchase of stock	-	(2,146)	-	-	-	(2,146)
Equity Compensation Plan	2	-	98	-	-	100
Exercise of stock options	81	-	1,873	-	-	1,954
Tax benefit from exercise of employee stock options	-	-	205	-	-	205
Balance at December 31, 1999	20,814	(11,270)	251,440	101,533	2,020	364,537
Net income	-	-	-	52,784	-	52,784
Other comprehensive income, net of income tax of \$489	-	-	-	-	908	908
Reclassification adjustment for gains reported in net income, net of income tax of \$1,375	-	-	-	-	(2,002)	(2,002)
Dividends	-	-	-	(30,406)	-	(30,406)
Stock split	5,319	-	(5,319)	-	-	-
Stock issued for acquisitions	228	-	8,067	-	-	8,295
Sale of stock	803	307	34,318	-	-	35,428
Repurchase of stock	-	(4,383)	-	-	-	(4,383)
Equity Compensation Plan	12	-	545	-	-	557
Exercise of stock options	84	-	1,677	-	-	1,761
Tax benefit from exercise of employee stock options	-	-	285	-	-	285
Balance at December 31, 2000	27,260	(15,346)	291,013	123,911	926	427,764
Net income	-	-	-	60,005	-	60,005
Other comprehensive income, net of income tax of \$19	-	-	-	-	39	39
Reclassification adjustment for gains reported in net income, net of income tax of \$127	-	-	-	-	(239)	(239)
Dividends	-	-	-	(34,234)	-	(34,234)
Stock split	6,829	-	(6,829)	-	-	-
Stock issued for acquisitions	133	-	5,228	-	-	5,361
Sale of stock	128	672	5,783	-	-	6,583
Repurchase of stock	-	(2,493)	-	-	-	(2,493)
Equity Compensation Plan	3	-	141	-	-	144
Exercise of stock options	297	-	6,642	-	-	6,939
Tax benefit from exercise of employee stock options	-	-	2,061	-	-	2,061
Balance at December 31, 2001	\$ 34,650	\$ (17,167)	\$ 304,039	\$ 149,682	\$ 726	\$ 471,930

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

In September 2000, the Company issued 2,066,406 shares of common stock through a public offering, providing net proceeds of \$29,689 which were used to make an equity contribution to PSW. PSW used the contribution from the Company to reduce the balance of its revolving credit loan.

In December 1999, the Company filed a shelf registration statement with the Securities and Exchange Commission for the offering and sale of up to 2,000,000 shares of common stock and 500,000 shares of preferred stock. During 2001 and 2000, 331,710 and 578,813 shares of common stock totaling \$5,361 and \$8,295, respectively, were issued to acquire water and wastewater systems. The Company expects to offer from time to time, the remainder of these shares for acquisitions. The precise amount and timing of the application of such proceeds will depend upon our funding requirements and the availability and cost of other funds.

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income for unrealized gains on securities is reported in the Stockholders' Equity section of the Consolidated Balance Sheets and the related other comprehensive income is reported in the Consolidated Statements of Income and Comprehensive Income.

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. During 2001, 2000 and 1999, under the dividend reinvestment portion of the Plan, 303,906, 419,766 and 358,556 original issue shares of common stock were sold providing the Company with proceeds of \$5,980, \$5,482 and \$5,044, respectively.

The Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. During 2000 and 1999, 288,750 and 127,188 shares have been purchased at a net cost of \$3,500 and \$1,771, respectively. There were no shares repurchased in 2001 in the open market or through privately negotiated transactions. For comparative purposes the number of shares purchased is presented as if they were adjusted for the effect of the 2001 5-for-4 common stock split in the form of a 25% stock distribution. As of December 31, 2001, 328,967 shares remain available for purchase by the Company.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

Net Income per Common Share and Equity per Common Share

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

	Years ended December 31,		
	2001	2000	1999
Average common shares outstanding during the period for Basic computation	67,873	64,759	63,850
Dilutive effect of employee stock options	882	655	689
Average common shares outstanding during the period for Diluted computation	68,755	65,414	64,539

Equity per common share was \$6.90 and \$6.38 at December 31, 2001 and 2000, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of \$.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

Employee Stock and Incentive Plans

Under the 1994 Equity Compensation Plan ("1994 Plan"), as amended and restated effective March 3, 1998, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In November 1998, the Shareholders authorized an increase to the number of shares from 1,900,000 shares to 2,900,000 shares of common stock for issuance under the 1994 Plan. The maximum number of shares that may be subject to grants under the 1994 Plan to any one individual in any one year is 100,000. Awards under this plan are made by the Board of Directors or a committee of the Board.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(In thousands of dollars, except per share amounts)

Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant.

The following table summarizes stock option transactions for the two plans:

	As of or For the Years Ended December 31,					
	2001		2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options:						
Outstanding, beginning of year	2,263,803	\$ 10.69	2,005,194	\$ 10.12	1,771,730	\$ 8.80
Granted	535,679	19.10	560,609	11.75	472,656	13.71
Terminated	(18,183)	12.13	(70,911)	13.17	(11,807)	13.12
Exercised	(733,489)	9.39	(231,089)	7.58	(227,385)	7.15
Outstanding, end of year	<u>2,047,810</u>	<u>\$ 13.32</u>	<u>2,263,803</u>	<u>\$ 10.69</u>	<u>2,005,194</u>	<u>\$ 10.12</u>
Exercisable, end of year	<u>1,015,708</u>	<u>\$ 10.79</u>	<u>1,295,561</u>	<u>\$ 9.21</u>	<u>1,132,550</u>	<u>\$ 7.71</u>

Options exercised during 2001 ranged in price from \$4.60 per share to \$15.28 per share. At December 31, 2001, 991,937 options under the 1994 Plan were still available for grant. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 2001:

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Range of prices:					
\$ 5.78 - 8.99	281,185	3.6	\$ 6.47	281,185	\$ 6.47
\$ 9.00 - 11.99	670,089	7.3	11.13	313,472	10.44
\$12.00 - 14.99	562,083	6.8	13.88	421,051	13.94
\$15.00 - 19.10	534,453	9.2	19.09	-	-
	<u>2,047,810</u>	<u>7.1</u>	<u>\$ 13.32</u>	<u>1,015,708</u>	<u>\$ 10.79</u>

Under SFAS No. 123, "Accounting for Stock-Based Compensation", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Had the Company determined compensation cost based on the fair value at

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

the grant date for its stock options under SFAS No. 123, the Company's net income available to common stock and Basic and Diluted net income per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	2001	2000	1999
Net income available to common stock:			
As reported	\$ 60,005	\$ 52,784	\$ 36,275
Proforma	57,013	51,206	35,398
Basic net income per share:			
As reported	\$ 0.88	\$ 0.82	\$ 0.57
Proforma	0.84	0.79	0.55
Diluted net income per share:			
As reported	\$ 0.87	\$ 0.81	\$ 0.56
Proforma	0.83	0.78	0.55

The per share weighted-average fair value at the date of grant for stock options granted during 2001, 2000 and 1999 was \$5.58, \$2.82, and \$3.42 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2001	2000	1999
Expected life (years)	5.2	10	10
Interest rate	5.0%	6.4%	5.4%
Volatility	32.7%	21.1%	20.9%
Dividend yield	2.6%	3.9%	3.2%

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 2001, 2000 and 1999, 7,875, 36,875 and 6,875 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans that cover its full-time employees. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with a minimum level of service. These PBOPs

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

include continuation of medical and prescription drug benefits for all eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts.

The Company's pension expense (credit) includes the following components:

	Years Ended December 31,		
	2001	2000	1999
Benefits earned during the year	\$ 2,986	\$ 2,553	\$ 3,232
Interest cost on projected benefit obligation	8,261	7,612	7,214
Expected return on plan assets	(10,891)	(11,281)	(10,304)
Net amortization and deferral	(206)	(1,283)	(105)
Capitalized costs	(49)	(56)	(47)
Rate-regulated adjustment	(553)	1,403	430
Special termination benefits	-	43	716
Net pension cost (credit)	<u>\$ (452)</u>	<u>\$ (1,009)</u>	<u>\$ 1,136</u>

The rate-regulated adjustment set forth above is required in order to reflect pension expense (credit) for the Company in accordance with the method used in establishing water rates. During 2000 and 1999, the Company instituted early retirement and restructuring programs. These actions resulted in additional termination benefits of \$43 in 2000 and \$716 in 1999.

The Company's costs for postretirement benefits other than pensions includes the following components:

	Years Ended December 31,		
	2001	2000	1999
Benefits earned during the year	\$ 705	\$ 555	\$ 645
Interest cost	1,427	1,267	1,249
Expected return on plan assets	(947)	(920)	(699)
Net amortization and deferral	567	417	628
Special termination benefits	-	-	209
Amortization of regulatory asset	136	208	208
Gross PBOP cost	<u>1,888</u>	<u>1,527</u>	<u>2,240</u>
Capitalized costs	(475)	(512)	(464)
Net PBOP cost	<u>\$ 1,413</u>	<u>\$ 1,015</u>	<u>\$ 1,776</u>

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at January 1,	\$ 110,214	\$ 98,228	\$ 18,581	\$ 17,292
Service cost	2,986	2,553	705	555
Interest cost	8,261	7,612	1,428	1,267
Special termination benefits	-	43	-	282
Plan amendments	-	-	(1,205)	-
Actuarial loss	3,645	6,963	3,680	-
Benefits paid	(5,439)	(5,185)	(872)	(815)
Benefit obligation at December 31,	<u>119,667</u>	<u>110,214</u>	<u>22,317</u>	<u>18,581</u>
Change in plan assets:				
Fair value of plan assets at January 1,	123,715	128,367	11,896	11,097
Actual return on plan assets	(5,001)	479	(688)	(323)
Employer contributions	55	54	1,880	1,937
Benefits paid	(5,439)	(5,185)	(872)	(815)
Fair value of plan assets at December 31,	<u>113,330</u>	<u>123,715</u>	<u>12,216</u>	<u>11,896</u>
Funded status of plan:				
Funded status at December 31,	6,337	(13,501)	10,101	6,685
Unrecognized actuarial gain (loss)	(2,051)	18,014	854	6,345
Unrecognized prior service cost	(2,581)	(3,012)	704	761
Rate-regulated adjustment	(516)	37	-	-
Unrecognized net transition obligation	1,645	1,755	(8,838)	(10,846)
Accrued benefit costs	<u>\$ 2,834</u>	<u>\$ 3,293</u>	<u>\$ 2,821</u>	<u>\$ 2,945</u>
Weighted-average assumptions as of December 31,				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	9.00%	9.00%	6.00-9.00%	6.00-9.00%
Rate of compensation increase	4.50-5.50%	4.50-5.50%	4.50%	4.50%

The accumulated benefit obligation is in excess of plan assets for certain non-qualified plans. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for these plans were \$3,551, \$2,341 and \$0, and \$3,490, \$2,078 and \$0, respectively as of December 31, 2001 and 2000.

The assumed medical inflation rates under the PSC and CWC plans are 12.0%, reducing to 5.0% by 2006. The effect of a 1% increase in the assumed medical inflation rates would be to increase the accumulated postretirement benefit obligation as of December 31, 2001 and the 2001 PBOP costs by \$664 and \$71, respectively. The effect of a 1% decrease in the assumed medical inflation rates would be to decrease the accumulated postretirement benefit obligation as of December 31, 2001 and the 2001 PBOP costs by \$866 and \$154, respectively. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued) (In thousands of dollars, except per share amounts)

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are invested in PSC common stock based on a percentage of an employee's contribution, subject to certain limitations. The Company's matching contribution, recorded as compensation expense, was \$798, \$786 and \$741 for the years ended December 31, 2001, 2000 and 1999, respectively.

Water Rates

In November 2001, PSW filed an application with the Pennsylvania Public Utility Commission ("PAPUC") for our Pennsylvania subsidiaries requesting a \$28,000 or 13.4% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2002.

On April 27, 2000, the PAPUC approved a rate settlement reached between PSC's Pennsylvania utility subsidiaries, and the parties actively litigating the joint rate application filed in October 1999. The settlement was designed to increase annual revenue by \$17,000 or 9.4% above the level in effect at the time of the filing. The rates in effect at the time of the filing included \$7,347 in Distribution System Improvement Charges ("DSIC") ranging from 0.33% to 5%. Consequently, the settlement resulted in a total base rate increase of \$24,347 or 13.5% above the rates in effect before the DSIC was applied. As a part of the rate settlement, the DSIC was reset to zero. The settlement agreement also provided for the recovery of up to \$5,295 (the merger costs allocable to our Pennsylvania operations) of the \$10,121 (\$8,596 after-tax) in merger costs that were expensed in the first quarter of 1999 in connection with the Merger. As a result, a regulatory asset was established to reflect the amount to be recovered as a result of the rate settlement.

The CWC operating subsidiaries were allowed annual rate increases of \$4,799 in 2001, \$698 in 2000 and \$390 in 1999, represented by nine, four and two rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately \$4,200, \$450 and \$308 in 2001, 2000 and 1999, respectively.

The DSIC enables water utilities in Pennsylvania to add a surcharge to customer bills reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective or when PSW's pro forma earnings exceed a PUC benchmark. The maximum DSIC that can be in effect at any time is 5%. The DSIC in 2001 ranged from 2.21% in the first quarter to 5% in the fourth quarter, and has been set at 5% in the first quarter of 2002. The DSIC provided revenues in 2001, 2000 and 1999 of \$6,672, \$2,301 and \$4,140, respectively.

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

In addition to its base rates and DSIC, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated in base rates. A rate credit reduced operating revenues in 2001 by \$639, and various surcharge rates provided operating revenues of \$74 in 2000 and \$1,306 in 1999.

Selected Quarterly Financial Data (Unaudited)
(in thousands of dollars, except per share amounts)

Philadelphia Suburban Corporation and Subsidiaries

	First	Second	Third	Fourth	Year
2001					
Operating revenues	\$ 70,193	\$ 77,240	\$ 84,726	\$ 75,121	\$ 307,280
Operations and maintenance expense	26,186	26,462	28,994	30,243	111,885
Net income available to common stock	13,085	15,432	19,279	12,209	60,005
Basic net income per common share	0.19	0.23	0.28	0.18	0.88
Diluted net income per common share	0.19	0.22	0.28	0.18	0.87
Dividend paid per common share	0.124	0.124	0.124	0.13248	0.504
Dividend declared per common share	0.124	0.124	0.25648	-	0.504
Price range of common stock					
- high	19.39	20.40	23.28	24.64	24.64
- low	15.65	16.60	18.66	20.80	15.65
2000					
Operating revenues	\$ 64,208	\$ 68,494	\$ 72,123	\$ 69,189	\$ 274,014
Operations and maintenance expense	24,928	24,350	25,037	27,426	101,741
Net income available to common stock	10,246	13,565	16,539	12,434	52,784
Basic net income per common share	0.16	0.21	0.26	0.19	0.82
Diluted net income per common share	0.16	0.21	0.25	0.18	0.81
Dividend paid per common share	0.1152	0.1152	0.1152	0.124	0.4696
Dividend declared per common share	0.1152	0.1152	0.2392	-	0.4696
Price range of common stock					
- high	14.08	15.96	15.56	19.95	19.95
- low	10.56	11.60	12.80	13.56	10.56

All per share data as presented has been adjusted for the 2001 5-for-4 common stock split effected in the form of a 25% stock distribution. High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividends paid in December 2001 of \$0.13248 and December 2000 of \$0.124 were declared in August 2001 and August 2000, respectively.

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

Summary of Selected Financial Data
(in thousands of dollars, except per share amounts)

Philadelphia Suburban Corporation and Subsidiaries

Years ended December 31,	2001	2000*	1999*	1998*	1997*
PER COMMON SHARE:					
Income from continuing operations (a)					
Basic	\$0.88	\$0.82	\$0.57	\$0.71	\$0.58
Diluted	0.87	0.81	0.56	0.70	0.58
Net income (a)					
Basic	0.88	0.82	0.57	0.71	0.54
Diluted	0.87	0.81	0.56	0.70	0.53
Cash dividends paid (b)	0.50	0.47	0.45	0.43	0.40
Cash dividends declared (b) (c)	0.50	0.47	0.45	0.32	0.50
Return on average stockholders' equity (a) (d)	13.3%	13.2%	10.1%	13.6%	11.8%
Book value at year end	\$6.90	\$6.38	\$5.69	\$5.46	\$4.93
Market value at year end	22.55	19.60	13.24	18.92	14.13
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues (d)	\$307,280	\$274,014	\$256,546	\$250,718	\$235,162
Depreciation and amortization (d)	40,168	34,100	31,903	29,464	27,977
Interest expense (d) (e)	38,637	37,775	31,796	30,785	32,317
Income before income taxes (d)	99,087	86,995	62,915	75,133	57,642
Provision for income taxes (d)	38,976	34,105	26,531	30,118	22,432
Income from continuing operations (a)	60,111	52,890	36,384	45,015	35,210
Net income available to common stock (a)	60,005	52,784	36,275	44,820	32,278
BALANCE SHEET HIGHLIGHTS:					
Total assets	\$1,560,339	\$1,413,723	\$1,280,805	\$1,156,733	\$1,083,162
Property, plant and equipment, net	1,368,115	1,251,427	1,135,364	1,016,194	952,626
Stockholders' equity	473,833	432,347	368,901	353,088	306,816
Preferred stock with mandatory redemption (f)	-	-	-	-	4,214
Long-term debt (f)	531,455	472,712	425,946	377,355	407,526
Total debt	641,123	573,706	529,015	440,905	436,756
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	\$102,165	\$86,972	\$74,103	\$84,362	\$71,252
Capital additions (d) (g)	124,088	129,740	96,383	87,973	67,378
Dividends on common stock	34,234	30,406	29,217	29,349	26,752
Number of customers served	602,510	579,219	557,462	533,847	526,640
Number of shareholders of common stock	20,920	20,978	21,187	20,553	19,902
Common shares outstanding (000)	68,386	67,095	64,082	63,597	61,112
Employees (full-time)	951	943	945	973	979

*Share and per share data has been restated for the 2001 5-for-4 stock split.

- (a) The 2000 amounts include a net gain of \$2,236 (\$4,041 pre-tax) or \$0.04 per share for the partial recovery of the merger costs related to the Merger. The 1999 amounts include a net charge of \$8,596 (\$10,121 pre-tax) or \$0.13 per share for the Merger transaction costs and related restructuring costs. The 1998 amounts include a net gain of \$3,903 (\$6,680 pre-tax) or \$0.06 per share on the sale of Consumers Water Company's New Hampshire system pursuant to the State's condemnation statute.
- (b) Amount represents PSC's historical dividends per common share.
- (c) The cash dividend of \$0.10, paid in March 1998, was declared in December 1997.
- (d) Continuing operations only.
- (e) Includes dividends on preferred stock of subsidiary and minority interest; net of allowance for funds used during construction.
- (f) Includes current portion.
- (g) Excludes payments for acquired water systems of \$9,517 in 2001, \$3,546 in 2000, \$39,164 in 1999, \$24,498 in 1998, and \$1,226 in 1997.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
INVESTOR AND SHAREHOLDER INFORMATION

Financial Reports and Investor Relations

Shareholders may request, without charge, copies of the company's financial reports including Annual Reports and Forms 10-K and 10-Q. Such requests, as well as other inquiries of an investor relations nature, should be addressed to:

Investor Relations Department
Philadelphia Suburban Corporation
762 W. Lancaster Avenue
Bryn Mawr, PA 19010-3489
www.suburbanwater.com

Annual Meeting

10:00 a.m. Eastern Daylight Time
Thursday, May 16, 2002
Springfield Country Club
400 West Sproul Road
Springfield, PA

Transfer Agent and Registrar

EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010
800-205-8314 or 781-575-3100
www.equiserve.com

Independent Certified Public Accountants

PricewaterhouseCoopers LLP
Two Commerce Square
Suite 1700
2001 Market Street
Philadelphia, PA 19103-7042

Stock Exchanges

The Common Stock of the company is listed on the New York Stock Exchange and the Philadelphia Stock Exchange under the ticker symbol "PSC". The daily closing price is printed in *The Wall Street Journal* and other major newspapers, typically as PhilSuburban.

Dividend Reinvestment and Direct Stock Purchase Plan

The company's Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") enables shareholders to reinvest all, or a designated portion of, dividends paid on up to 100,000 shares of Common Stock in additional shares of Common Stock at a five percent discount from a price based on the market value of the stock with no commissions or service charges. In addition, shareholders may purchase additional shares of PSC Common Stock at any time with a minimum investment of \$50, up to a maximum of \$250,000 annually. PSC pays the commissions and fees on purchases. Individuals who are not shareholders may become shareholders by making an initial investment of at least \$500 either through automatic withdrawal from your bank or by check or money order. A Plan prospectus may be obtained by calling 800-205-8314. **Please read the prospectus carefully before you invest.** Shares for the direct stock purchase portion of the Plan are purchased in the open market at prevailing market prices, with no commissions or other fees.

IRA, Roth IRA, Education IRA

An IRA, Roth IRA or Education IRA may be opened through the Plan to hold shares of Common Stock of the company and to make contributions to the IRA to purchase shares of Common Stock. Participants in the Plan may roll over an existing IRA or other qualified plan distribution in cash into an IRA under the Plan to purchase the company's common stock. Participants may also transfer the company's Common Stock from an existing IRA into an IRA under the Plan. Purchases of shares through the IRA are made without any fees,

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
INVESTOR AND SHAREHOLDER INFORMATION

commissions, or service charges. A prospectus, IRA forms and a disclosure statement may be obtained by calling EquiServe Trust Company at 800-472-7428. **Please read the prospectus carefully before you invest.**

Direct Deposit

With direct deposit, PSC cash dividends are deposited automatically on the dividend payment date of each quarter. Shareholders receive confirmation of the deposit in the mail. Shareholders interested in direct deposit should call the transfer agent at 800-205-8314.

Multiple Accounts

Some shareholders have multiple accounts. The transfer agent cannot change or merge accounts without your written request. If you would like to help us avoid the expense of multiple mailings, call the transfer agent at 800-205-8314 to get details on how to have your accounts consolidated.

Dividends

PSC has paid dividends consecutively for 57 years. The normal Common Stock dividend dates through June 2003 are:

Declaration Date	Ex-Dividend Date	Record Date	Payment Date
February 5, 2002	February 7, 2002	February 12, 2002	March 1, 2002
April 30, 2002	May 9, 2002	May 14, 2002	June 1, 2002
August 6, 2002	August 13, 2002	August 16, 2002	September 1, 2002
November 5, 2002	November 12, 2002	November 15, 2002	December 1, 2002
February 4, 2003	February 11, 2003	February 14, 2003	March 1, 2003
April 29, 2003	May 8, 2003	May 13, 2003	June 1, 2003

In order to be the owner of record and be eligible to receive the quarterly dividend, shares must have been purchased and the transaction settled before the ex-dividend date. Owners of any share(s) bought after this date will not receive the dividend for that quarter. The previous owner—the owner of record—will receive the dividend.

Only the Board of Directors may declare dividends and set record dates. Therefore, these dates may change at the discretion of the Board. Announcement of the dividend declaration is usually published in *The Wall Street Journal* and several local newspapers.

Dividends paid on the company's Common Stock are subject to Federal and State income tax.

Lost Dividend Checks and Stock Certificates

Dividend checks lost by shareholders, or those that might be lost in the mail, will be replaced upon notification of the lost or missing check. All inquiries concerning lost or missing dividend checks should be made to the transfer agent by calling 800-205-8314.

Shareholders should call or write the transfer agent to report a lost certificate. Appropriate documents will be prepared and sent to the shareholder together with instructions.

Safekeeping of Stock Certificates

Shareholders may have their stock certificate deposited with the transfer agent for safekeeping free of charge. Stock certificates and written instructions should be forwarded to:

EquiServe Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010

Board of Directors

Nicholas DeBenedictis, 56
Chairman, President & CEO
PSC
Director since 1992

John F. McCaughan, 66
Chairman (Retired)
Betz Laboratories, Inc.
Director since 1984

Mary C. Carroll, 61
Consultant and
Community Volunteer
Director since 1981

John E. Menario, 66
Assistant to the President
Banknorth Group, Inc.
Director since 1999

G. Fred DiBona, Jr., 51
President and CEO
Independence Blue Cross
Director since 1993

Andrew D. Seidel, 39
President and CEO
United States Filter Corporation
Director since 2000

Richard H. Glanton, 55
Partner
Reed Smith LLP
Director since 1995

Richard L. Smoot, 61
Regional Chairman, Advisory Board
PNC Financial Services Group
Philadelphia and Southern New Jersey
Director since 1997

Alan Hirsig, 62
President and CEO (Retired)
ARCO Chemical Company
Director since 1997

Officers

Nicholas DeBenedictis, 56
Chairman, President and CEO

Richard R. Riegler, 55
Senior Vice President,
Engineering and
Environmental Affairs

Morrison Coulter, 65
President
Pennsylvania Suburban
Water Company
Philadelphia Suburban Division

David P. Smeltzer, 43
Senior Vice President-
Finance and CFO

Robert G. Liptak, 54
President
Consumers Water Company

Roy H. Stahl, Esq., 49
Executive Vice President,
General Counsel,
and Corporate Secretary



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