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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

Commission file number 1-1398

UGI UTILITIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Pennsylvania 23-1174060
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER IDENTIFICATION NO.)
INCORPORATION OR ORGANIZATION)

100 Kachel Boulevard, Suite 400, Green Hills Corporate Center
Reading, PA 19607
(ADDRESS OF PRINCIPAL OFFICES) (ZIP CODE)

(610) 796-3400
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED
TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING
THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS
REQUIRED TO FILE SUCH REPORTS) AND (2) HAS BEEN SUBJECT TO SUCH FILING
REQUIREMENTS FOR THE PAST 90 DAYS. YES [X] NO [].

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. [X]

At November 30, 2003, there were 26,781,785 shares of UGI Utilities Common
Stock, par value \$2.25 per share, outstanding, all of which were held,
beneficially and of record, by UGI Corporation

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Act). Yes [X] No []

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND
(b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM 10-K WITH THE REDUCED
DISCLOSURE FORMAT PERMITTED BY THAT GENERAL INSTRUCTION.

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PART I: BUSINESS

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

GENERAL

UGI Utilities, Inc. ("Utilities", "UGI Utilities" or the "Company") is a public utility company that owns and operates (i) a natural gas distribution utility serving 15 counties in eastern and southeastern Pennsylvania ("Gas Utility"), and (ii) an electric utility serving parts of Luzerne and Wyoming counties in northeastern Pennsylvania ("Electric Utility"). We are a wholly owned subsidiary of UGI Corporation ("UGI"). In response to state deregulation legislation, effective October 1, 1999 we transferred our electric generation assets to our non-utility subsidiary, UGI Development Company ("UGID"). UGID contributed certain of its generation assets to a joint venture with a subsidiary of Allegheny Energy, Inc. in December 2000. In June 2003, we dividdened the stock of UGID to UGI. UGID's results of operations did not have a material effect on our results of operations for fiscal years 2003, 2002 or 2001.

Utilities was incorporated in Pennsylvania in 1925. We are subject to regulation by the Pennsylvania Public Utility Commission ("PUC"). Our executive offices are located at 100 Kachel Boulevard, Suite 400, Green Hills Corporate Center, Reading, Pennsylvania 19607, and our telephone number is (610) 796-3400. In this report, the terms "Company" and "Utilities," as well as the terms, "our," "we," and "its," are sometimes used to refer to UGI Utilities, Inc. or, collectively (for periods prior to July 2003), UGI Utilities, Inc. and its consolidated subsidiaries.

GAS UTILITY OPERATIONS

NATURAL GAS CHOICE AND COMPETITION ACT

On June 22, 1999, Pennsylvania's Natural Gas Choice and Competition Act ("Gas Competition Act") was signed into law. The purpose of the Gas Competition Act was to provide all natural gas consumers in Pennsylvania with the ability to purchase their gas supplies from the supplier of their choice. Under the Gas Competition Act, local distribution companies ("LDCs") like Gas Utility may continue to sell gas to customers, and such sales of gas, as well as distribution services provided by LDCs, continue to be subject to price regulation by the PUC.

Generally, Pennsylvania LDCs will serve as the supplier of last resort for all residential and small commercial and industrial customers unless the PUC approves another supplier of last resort. The Gas Competition Act requires energy marketers seeking to serve customers of LDCs to accept assignment of a portion of the LDC's interstate pipeline capacity and storage contracts at contract rates, thus avoiding the creation of stranded costs.

On October 1, 1999, Gas Utility filed its restructuring plan with the PUC pursuant to the Gas Competition Act. On June 29, 2000, the PUC entered its order ("Gas Restructuring Order") approving Gas Utility's restructuring plan substantially as filed. Gas Utility designed its

restructuring plan to ensure reliability of gas supply deliveries to Gas Utility on behalf of residential and small commercial and industrial customers. In addition, the plan changed Gas Utility's base rates for firm customers. It also changed the calculation of purchased gas cost rates. See "Utility Regulation and Rates."

Since October 1, 2000, all of Gas Utility's customers have had the option to purchase their gas supplies from an alternative gas supplier. Large commercial and industrial customers of Gas Utility have been able to purchase their gas from other suppliers since 1982. During fiscal year 2003, two third-party suppliers qualified to serve residential or small commercial and industrial customers in Gas Utility's service territory. Together, they are serving approximately 4,500 customers. Management believes none of the Gas Competition Act, the Gas Restructuring Order, or commodity sales to residential and small commercial and industrial customers by third-party suppliers will have a material adverse impact on the Company's financial condition or results of operations.

SERVICE AREA; REVENUE ANALYSIS

Gas Utility distributes natural gas to approximately 292,000 customers in portions of 15 eastern and southeastern Pennsylvania counties through its distribution system of approximately 4,800 miles of gas mains. The service area consists of approximately 3,000 square miles and includes the cities of Allentown, Bethlehem, Easton, Harrisburg, Hazleton, Lancaster, Lebanon and Reading, Pennsylvania. Located in Gas Utility's service area are major production centers for basic industries such as specialty metals, aluminum and glass.

System throughput (the total volume of gas sold to or transported for customers within Gas Utility's distribution system) for the 2003 fiscal year was approximately 83.8 billion cubic feet ("bcf"). System sales of gas accounted for approximately 43% of system throughput, while gas transported for residential, commercial and industrial customers (who bought their gas from others) accounted for approximately 57% of system throughput. Based on industry data for 2001, residential customers account for approximately 34% of total system throughput by LDCs in the United States. By contrast, for the 2003 fiscal year, Gas Utility's residential customers represented 26% of its total system throughput.

SOURCES OF SUPPLY AND PIPELINE CAPACITY

Gas Utility meets its service requirements by utilizing a diverse mix of natural gas purchase contracts with producers and marketers, and storage and transportation service contracts. These arrangements enable Gas Utility to purchase gas from Gulf Coast, Mid-Continent, Appalachian and Canadian sources. For the transportation and storage function, Utilities has agreements with a number of pipeline companies, including Texas Eastern Transmission Corporation, Columbia Gas Transmission Corporation and Transcontinental Gas Pipeline Corporation.

GAS SUPPLY CONTRACTS

During fiscal year 2003, Gas Utility purchased approximately 37 bcf of natural gas for sale to customers. Approximately 88% of the volumes purchased were supplied under agreements with ten major suppliers. The remaining 12% of gas purchased was supplied by approximately 25 producers and marketers. Gas supply contracts are generally no longer than one year.

In fiscal years 2002 and 2003, as a result of changing market conditions following the bankruptcy of Enron Corp., a number of suppliers with which Utilities formerly did business exited the wholesale trading market. This development did not significantly impact Utilities' ability to secure gas supplies.

SEASONAL VARIATION

Because many of its customers use gas for heating purposes, Gas Utility's sales are seasonal. Approximately 60% of fiscal year 2003 throughput occurred during the months of November through March.

COMPETITION

Natural gas is a fuel that competes with electricity and oil, and to a lesser extent, with propane and coal. Competition among these fuels is primarily a function of their comparative price and the relative cost and efficiency of fuel utilization equipment. Electric utilities in Gas Utility's service area are seeking new load, primarily in the new construction market. Fuel oil dealers compete for customers in all categories, including industrial customers. Gas Utility responds to this competition with marketing efforts designed to retain and grow its customer base.

In substantially all of its service territory, Gas Utility is the only regulated gas distribution utility having the right, granted by the PUC or by law, to provide gas distribution services. Under the Gas Competition Act, retail customers may purchase their natural gas from a supplier other than Gas Utility. Commercial and industrial customers in Gas Utility's service territory have been able to do this since 1982. As of October 2003, two marketers have qualified to serve residential and small commercial and industrial customers. Together they serve approximately 4,500 customers. Gas Utility provides transportation services for residential and small commercial and industrial customers who purchase natural gas from others.

A number of Gas Utility's commercial and industrial customers have the ability to switch to an alternate fuel at any time and, therefore, are served on an interruptible basis under rates which are competitively priced with respect to their alternate fuel. Gas Utility's profitability from these customers, therefore, is affected by the difference, or "spread," between the customers' delivered cost of gas and the customers' delivered alternate fuel cost. See "Utility Regulation and Rates - Gas Utility Rates." Commercial and industrial customers representing 18% of total system throughput have locations which afford them the opportunity, although none has

exercised it, of seeking transportation service directly from interstate pipelines, thereby bypassing Gas Utility. The majority of customers in this group are served under transportation contracts having three- to twenty-year terms. Included in these two groups are Utilities' ten largest customers in terms of annual volume. All of these customers have contracts with Utilities, nine of which extend beyond fiscal year 2004. No single customer represents, or is anticipated to represent, more than 5% of the total revenues of Gas Utility.

OUTLOOK FOR GAS SERVICE AND SUPPLY

Gas Utility anticipates having adequate pipeline capacity and sources of supply available to meet the full requirements of all firm customers on its system through fiscal year 2004. Supply mix is diversified, market priced, and delivered pursuant to a number of long- and short-term firm transportation and storage arrangements, including transportation contracts held by some of Utilities' larger customers.

During fiscal year 2003, Gas Utility supplied transportation service to two major cogeneration installations and three electric generation facilities. Gas Utility continues to pursue opportunities to supply natural gas to electric generation projects located in its service territory. Gas Utility also continues to seek new residential, commercial and industrial customers for both firm and interruptible service. In the residential market sector, Gas Utility connected approximately 9,600 residential heating customers during fiscal year 2003, which represented a record annual increase. Of those new customers, new home construction accounted for over 7,300 heating customers. Customers converting from other energy sources, primarily oil and electricity, and existing non-heating gas customers who have added gas heating systems to replace other energy sources, accounted for the balance of the additions. The number of new commercial and industrial customers was over 1,100.

Utilities continues to monitor and participate extensively in rulemaking and individual rate and tariff proceedings before the Federal Energy Regulatory Commission ("FERC") affecting the rates and the terms and conditions under which Gas Utility transports and stores natural gas. Among these proceedings are those arising out of certain FERC orders and/or pipeline filings which relate to (i) the pricing of pipeline services in a competitive energy marketplace; (ii) the flexibility of the terms and conditions of pipeline service tariffs and contracts; and (iii) pipelines' requests to increase their base rates, or change the terms and conditions of their storage and transportation services.

Gas Utility's objective in negotiations with interstate pipeline and natural gas suppliers, and in proceedings before regulatory agencies, is to assure availability of supply, transportation and storage alternatives to serve market requirements at the lowest cost possible, taking into account the need for security of supply. Consistent with that objective, Gas Utility negotiates the terms of firm transportation capacity on all pipelines serving Gas Utility, arranges for appropriate storage and peak-shaving resources, negotiates with producers for competitively priced gas purchases and aggressively participates in regulatory proceedings related to transportation rights and costs of service.

ELECTRIC UTILITY OPERATIONS

ELECTRICITY GENERATION CUSTOMER CHOICE AND COMPETITION ACT

On January 1, 1997, Pennsylvania's Electricity Generation Customer Choice and Competition Act ("ECC Act") became effective. The ECC Act permits all Pennsylvania retail electric customers to choose their electric generation supplier. Pursuant to the Act, all electric utilities were required to file restructuring plans with the PUC which, among other things, included unbundled prices for electric generation, transmission and distribution and a competitive transition charge ("CTC") for the recovery of "stranded costs" which would be paid by all customers receiving distribution service. Stranded costs generally are electric generation-related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market. Under the ECC Act, Electric Utility is obligated to provide energy to customers who do not choose alternate suppliers. Electric Utility will continue to be the only regulated electric utility having the right, granted by the PUC or by law, to distribute electric energy in its service territory.

On June 19, 1998, the PUC entered its Opinion and Order (the "Restructuring Order") in Electric Utility's restructuring proceeding under the ECC Act. The Electric Restructuring Order authorized Electric Utility to recover from its customers approximately \$32.5 million in stranded costs (on a full revenue requirements basis, which includes all income and gross receipts taxes) over an estimated four-year period which commenced January 1, 1999 through a CTC, together with carrying charges on unrecovered balances of 7.94%. Under the terms of the Restructuring Order, Electric Utility generally could not increase the generation component of prices during the period that stranded costs were being recovered through the CTC. Electric Utility's recovery of stranded costs through the CTC was completed during fiscal year 2003.

SERVICE AREA; SALES ANALYSIS

Electric Utility supplies electric service to approximately 61,600 customers in portions of Luzerne and Wyoming Counties in northeastern Pennsylvania through a system consisting of approximately 2,100 miles of transmission and distribution lines and 14 transmission substations. For fiscal year 2003, about 53% of sales volume came from residential customers, 36% from commercial customers and 11% from industrial customers. Electricity transported for customers who purchased their power from others pursuant to the ECC Act represented approximately 1% of fiscal year 2003 sales volume.

SOURCES OF SUPPLY

Electric Utility has third-party generation supply contracts in place for substantially all of its expected energy requirements for fiscal year 2004. Electric Utility distributes both electricity that it purchases from others and electricity that customers purchase from other suppliers. At September 30, 2003, alternate suppliers served customers representing less than 1% of system load. Electric Utility expects to continue to provide energy to the great majority of its distribution customers for the foreseeable future.

UTILITY REGULATION AND RATES

PENNSYLVANIA PUBLIC UTILITY COMMISSION JURISDICTION

Utilities' gas and electric utility operations, which exclude electric generation, are subject to regulation by the PUC as to rates, terms and conditions of service, accounting matters, issuance of securities, contracts and other arrangements with affiliated entities, and various other matters.

FERC ORDERS 888 AND 889

In April 1996, FERC issued Orders No. 888 and 889, which established rules for the use of electric transmission facilities for wholesale transactions. FERC has also asserted jurisdiction over the transmission component of electric retail choice transactions. In compliance with these orders, the PJM Interconnection, LLC ("PJM"), of which Utilities is a member, has filed an open access transmission tariff with the FERC establishing transmission rates and procedures for transmission within the PJM control area. Under the PJM tariff and associated agreements, Electric Utility is entitled to receive certain revenues when its transmission facilities are used by third parties.

GAS UTILITY RATES

The Gas Restructuring Order included an increase in firm-residential, commercial and industrial ("retail core-market") base rates, effective October 1, 2000. The increase, calculated in accordance with the Gas Competition Act, was designed to generate approximately \$16.7 million in additional annual revenues. The Order also provided that Gas Utility reduce its purchased gas cost rates by an annualized amount of \$16.7 million for the first 14 months following the base rate increase.

Effective December 1, 2001, Gas Utility was required to reduce its purchased gas cost rates to retail core-market customers by an amount equal to the margin it receives from customers served under interruptible rates to the extent they use capacity contracted for by Gas Utility for retail core-market customers. As a result of these changes in its regulated rates, since December 1, 2001, Gas Utility's operating results have been more sensitive to heating season weather and less sensitive to the market prices of alternative fuel.

BASE RATES

As stated above, Gas Utility's current base rates went into effect October 1, 2000 pursuant to The Gas Restructuring Order. See Note 2 to the Company's Consolidated Financial Statements.

PURCHASED GAS COST RATES

Gas Utility's gas service tariff contains Purchased Gas Cost ("PGC") rates which provide for annual increases or decreases in the rate per thousand cubic feet ("mcf") which Gas Utility

charges for natural gas sold by it, to reflect Utilities' projected cost of purchased gas. PGC rates may also be adjusted quarterly, or, under certain conditions monthly, to reflect purchased gas costs. Each proposed annual PGC rate is required to be filed with the PUC six months prior to its effective date. During this period the PUC holds hearings to determine whether the proposed rate reflects a least-cost fuel procurement policy consistent with the obligation to provide safe, adequate and reliable service. After completion of these hearings, the PUC issues an order permitting the collection of gas costs at levels which meet that standard. The PGC mechanism also provides for an annual reconciliation. Utilities has two PGC rates. PGC (1) is applicable to small, firm, core-market customers consisting of the residential and small commercial and industrial classes; PGC (2) is applicable to firm, contractual, high-load factor customers served on three separate rates. In addition, residential customers maintaining a high load factor may qualify for the PGC (2) rate. As described above, the Gas Restructuring Order provided for ongoing adjustments to Gas Utilities' PGC rates, commencing December 1, 2001, to reflect margins, if any, from interruptible rate customers who do not obtain their own pipeline capacity.

ELECTRIC UTILITY RATES

The PUC approved a settlement establishing rules for Electric Utility's Provider of Last Resort ("POLR") service on March 28, 2002, and a separate settlement that modified these rules on June 13, 2002 (collectively, the "POLR Settlement") under which Electric Utility terminated stranded cost recovery through its CTC and is no longer subject to the statutory generation rate caps as of August 1, 2002 for commercial and industrial ("C&I") customers and as of November 1, 2002 for residential customers. Charges for generation service (1) were initially set at a level equal to the rates paid by Electric Utility customers for POLR service under the statutory rate caps; (2) may be raised at certain designated times by up to 5% of the total rate for distribution, transmission and generation through December 2004; and (3) may be set at market rates thereafter. Electric Utility may also offer multiple year POLR contracts to its customers. The POLR Settlement provides for annual shopping periods during which customers may elect to remain on POLR service or choose an alternate supplier. Customers who do not select an alternate supplier will be obligated to remain on POLR service until the next shopping period. Residential customers who return to POLR service at a time other than during the annual shopping period must remain on POLR service until the date of the second open shopping period after returning. C&I customers who return to POLR service at a time other than during the annual shopping period must remain on POLR service until the next open shopping period, and may, in certain circumstances, be subject to generation rate surcharges. Consistent with the terms of the POLR Settlement, Electric Utility's POLR rates will increase beginning January 2004 for commercial and industrial customers, and June 2004 for residential customers.

Additionally, pursuant to the requirements of the ECC, the PUC is currently developing post-rate cap POLR regulations that are expected to further define post-rate cap POLR service obligations and pricing. As of September 30, 2003, fewer than 1% of Electric Utility's customers have chosen an alternative electricity generation supplier.

STATE TAX SURCHARGE CLAUSES

Utilities' gas and electric service tariffs contain state tax surcharge clauses. The surcharges are recomputed whenever any of the tax rates included in their calculation are changed. These clauses protect Utilities from the effect of increases in most of the Pennsylvania taxes to which it is subject.

UTILITY FRANCHISES

Utilities holds certificates of public convenience issued by the PUC and certain "grandfather rights" predating the adoption of the Pennsylvania Public Utility Code and its predecessor statutes which it believes are adequate to authorize it to carry on its business in substantially all the territory to which it now renders gas and electric service. Under applicable Pennsylvania law, Utilities also has certain rights of eminent domain as well as the right to maintain its facilities in streets and highways in its territories.

OTHER GOVERNMENT REGULATION

In addition to regulation by the PUC, the gas and electric utility operations of Utilities are subject to various federal, state and local laws governing environmental matters, occupational health and safety, pipeline safety and other matters. Certain of Utilities' activities involving the interstate movement of natural gas, the transmission of electricity, transactions with non-utility generators of electricity, and other matters, are also subject to the jurisdiction of FERC.

Utilities is subject to the requirements of the federal Resource Conservation and Recovery Act, CERCLA and comparable state statutes with respect to the release of hazardous substances on property owned or operated by Utilities. See ITEM 3. "LEGAL PROCEEDINGS -- Environmental Matters-Manufactured Gas Plants."

EMPLOYEES

At September 30, 2003, Utilities had approximately 1,000 employees.

BUSINESS SEGMENT INFORMATION

The table stating the amounts of revenues, operating income (loss) and identifiable assets attributable to Utilities' operating segments for the 2003, 2002 and 2001 fiscal years appears in Note 10 "Segment Information" of Notes to Consolidated Financial Statements included in this Report and is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

With the exception of the matters set forth below, no material legal proceedings are pending involving Utilities, or any of its properties, and no such proceedings are known to be

contemplated by governmental authorities other than claims arising in the ordinary course of the Company's business.

ENVIRONMENTAL MATTERS - MANUFACTURED GAS PLANTS

In the late 1800s through the mid-1900s, UGI Utilities and its former subsidiaries owned and operated a number of manufactured gas plants ("MGPs") prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the business of some gas companies under agreement. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, by 1953, UGI Utilities had divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because UGI Utilities is currently permitted to include in rates, through future base rate proceedings, prudently incurred remediation costs associated with such sites. UGI Utilities has been notified of several sites outside Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination or performing environmental remediation. UGI Utilities is currently litigating three claims against it relating to out-of-state sites.

Consolidated Edison Company of New York v. UGI Utilities, Inc. On September 20, 2001, Consolidated Edison Company of New York ("ConEd") filed suit against Utilities, Inc. in the United States District Court for the Southern District of New York, seeking contribution from Utilities for an allocated share of response costs associated with investigating and assessing gas plant related contamination at former MGP sites in Westchester County, New York. The complaint alleges that Utilities "owned and operated" the MGPs prior to 1904. The complaint also seeks a declaration that Utilities is responsible for an allocated percentage of future investigative and remedial costs at the sites. ConEd believes that the cost of remediation for all of the sites could exceed \$70 million. Utilities believes that it has good defenses to the claim and is defending the suit.

In November 2003, the court granted Utilities' motion for summary judgment in part, dismissing all claims premised on a disregard of the separate corporate form of Utilities' former subsidiaries and dismissing claims premised on Utilities' operation of three of the MGPs under operating leases with ConEd's predecessors. The court reserved decision on the remaining theory of liability, that UGI Utilities was a direct operator of the remaining MGPs.

City of Bangor, Maine v. Citizens Communications Co. In April 2003, Citizens Communications Company ("Citizens") served a complaint naming Utilities as a third-party defendant in a civil action pending in United States District Court for the District of Maine. In

that action, the plaintiff, City of Bangor, sued Citizens to recover environmental response costs associated with MGP wastes generated at a plant allegedly operated by Citizens' predecessors at a site on the Penobscot River. Citizens subsequently joined Utilities and ten other third-party defendants alleging that the third-party defendants are responsible for an equitable share of any response costs Citizens may be required to pay to the City of Bangor. Remedial proposals for the site range between \$5 million and \$50 million. Utilities is unable to estimate what portion of this potential cost may be associated with MGP wastes. Utilities believes that it has good defenses to the claim.

Atlanta Gas Light Company v. UGI Utilities, Inc. By letter dated July 29, 2003, Atlanta Gas Light Company ("AGL") served Utilities with a complaint filed in the United States District Court for the Middle District of Florida in which AGL alleges that Utilities is responsible for 20% of approximately \$8 million incurred by AGL in the investigation and remediation of a former MGP site in St. Augustine, Florida. Utilities formerly owned stock of the St. Augustine Gas Company, the owner and operator of the MGP. Utilities believes that it has good defenses to the claim and is defending the suit.

RELATED MATTER

UGI Utilities, Inc. v. Insurance Co. of North America, et al. On February 11, 1999, UGI Utilities, Inc. filed suit in the Court of Common Pleas of Montgomery County, Pennsylvania against more than fifty insurance companies, including Insurance Services, Ltd. (AEGIS). The complaint alleges that the defendants breached contracts of insurance by failing to indemnify Utilities for certain environmental costs. Utilities has now settled with all known solvent defendants. The suit has been stayed pending resolution of the remaining claims.

PART II: SECURITIES AND FINANCIAL INFORMATION

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

All of the outstanding shares of the Company's Common Stock are owned by UGI and are not publicly traded.

DIVIDENDS

Cash dividends declared on the Company's Common Stock totaled \$33.9 million in fiscal year 2003, \$37.9 million in fiscal year 2002 and \$35.3 million in fiscal year 2001.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In the following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), Electric Utility and UGID's electricity generation business prior to its distribution to UGI in June 2003 are collectively referred to as "Electric Operations." The MD&A should be read in conjunction with our Consolidated Financial Statements and Notes to Consolidated Financial Statements including the business segment information in Note 10.

Fiscal 2003 Compared with Fiscal 2002

Year Ended September 30,	2003	2002	Increase	

(Millions of dollars)				
GAS UTILITY:				
Revenues	\$ 539.9	\$ 404.5	\$ 135.4	33.5%
Total margin (a)	\$ 196.9	\$ 162.9	\$ 34.0	20.9%
Operating income	\$ 96.1	\$ 77.1	\$ 19.0	24.6%
Income before income taxes	\$ 80.7	\$ 62.9	\$ 17.8	28.3%
System throughput - bcf	83.8	70.5	13.3	18.9%
Degree days - % colder (warmer) than normal	7.0%	(17.4)%	-	-
ELECTRIC OPERATIONS:				
Revenues	\$ 96.9	\$ 86.0	\$ 10.9	12.7%
Total margin (a)	\$ 42.2	\$ 32.8	\$ 9.4	28.7%
Operating income	\$ 21.8	\$ 13.2	\$ 8.6	65.2%
Income before income taxes	\$ 19.5	\$ 10.7	\$ 8.8	82.2%
Distribution sales - gwh	980.0	933.6	46.4	5.0%

bcf - billions of cubic feet. gwh - millions of kilowatt hours.

- (a) Gas Utility's total margin represents total revenues less cost of sales. Electric Operation's total margin represents total revenues less cost of sales and revenue-related taxes, i.e. Electric Utility gross receipts taxes of \$4.8 million and \$4.6 million in Fiscal 2003 and Fiscal 2002, respectively. For financial statement purposes, revenue-related taxes are included in "taxes other than income taxes" on the Consolidated Statements of Income.

GAS UTILITY. Weather in Gas Utility's service territory based upon heating degree days was 7.0% colder than normal during Fiscal 2003 compared to weather that was 17.4% warmer than normal during Fiscal 2002. The significantly colder weather resulted in higher heating-related sales to firm- residential, commercial and industrial ("retail core-market") customers and, to a lesser extent, greater volumes transported for residential, commercial and industrial delivery service customers. System throughput in Fiscal 2003 also benefited from a year-over-year increase in the number of customers.

Gas Utility revenues increased principally as a result of the previously mentioned greater retail core-market and delivery service volumes and higher average retail core-market purchased gas cost ("PGC") rates resulting from higher natural gas costs. Gas Utility cost of gas was \$343.0 million in Fiscal 2003, an increase of \$101.3 million from the prior year, reflecting the higher retail core-market volumes sold and the higher retail core-market PGC rates.

The increase in Gas Utility total margin principally reflects a \$27.1 million increase in retail core-market total margin due to the higher retail core-market sales and increased margin from greater delivery service volumes.

The increase in Gas Utility operating income principally reflects the increase in total margin partially offset by a \$12.7 million increase in operating and administrative expenses and lower other income. Fiscal 2003 operating and administrative expenses include higher costs associated with litigation-related costs and expenses, greater distribution system maintenance expenses, higher uncollectible accounts expenses and increased incentive compensation costs. Other income declined \$3.2 million principally reflecting a \$2.2 million decrease in pension income and lower interest income on PGC undercollections. The increase in Gas Utility income before income taxes reflects the increase in operating income offset by higher interest expense on PGC overcollections and, beginning July 1, 2003, dividends on preferred shares.

ELECTRIC OPERATIONS. Electric Utility's Fiscal 2003 kilowatt-hour sales increased principally as a result of weather that was 8.4% colder than normal compared to weather that was 14.5% warmer than normal in the prior year.

The higher Electric Operations revenues reflect greater Electric Utility sales and greater sales of electricity produced by UGID's electricity generation assets to third parties prior to its distribution to UGI in June 2003. Prior to September 2002, UGID sold substantially all of the electricity it produced to Electric Utility with the associated revenue and margin eliminated in our consolidated results. Beginning September 2002, Electric Utility began purchasing its power needs exclusively from third-party electricity suppliers under fixed-price energy and capacity contracts and, to a much lesser extent, on the spot market, and UGID began selling electric power produced from its interests in electricity generating facilities to third parties on the spot market. Notwithstanding the significant increase in Electric Operations' revenues, cost of sales increased only \$1.3 million in Fiscal 2003 as the impact on cost of sales resulting from the greater Electric Utility and electric generation third-party sales was partially offset by lower Electric Utility per-unit purchased power costs.

The increase in Electric Operations' total margin principally reflects lower Electric Utility per-unit purchased power costs, the increase in Electric Utility sales, and margin from the greater sales of electricity produced by UGID's electricity generation assets to third parties. The higher Fiscal 2003 operating income reflects the greater total margin and higher other income partially offset by slightly higher operating and administrative expenses. The increase in Electric Operations income before income taxes reflects the increase in operating income and slightly lower interest expense.

Fiscal 2002 Compared with Fiscal 2001

Year Ended September 30,	2002	2001	Increase (Decrease)	

(Millions of dollars)				
GAS UTILITY:				
Revenues	\$ 404.5	\$ 500.8	\$ (96.3)	(19.2)%
Total margin	\$ 162.9	\$ 177.9	\$ (15.0)	(8.4)%
Operating income	\$ 77.1	\$ 87.8	\$ (10.7)	(12.2)%
Income before income taxes	\$ 62.9	\$ 71.6	\$ (8.7)	(12.2)%
System throughput - bcf	70.5	77.3	(6.8)	(8.8)%
Degree days - % colder (warmer) than normal	(17.4)%	2.0%	-	-
ELECTRIC OPERATIONS:				
Revenues	\$ 86.0	\$ 83.9	\$ 2.1	2.5%
Total margin (a)	\$ 32.8	\$ 28.6	\$ 4.2	14.7%
Operating income	\$ 13.2	\$ 10.7	\$ 2.5	23.4%
Income before income taxes	\$ 10.7	\$ 8.0	\$ 2.7	33.8%
Distribution sales - gwh	933.6	945.5	(11.9)	(1.3)%

(a) Electric Operation's total margin represents total revenues less cost of sales and Electric Utility gross receipts taxes of \$4.6 million and \$3.4 million in Fiscal 2002 and Fiscal 2001, respectively.

GAS UTILITY.

Weather in Gas Utility's service territory during Fiscal 2002 based upon heating degree days was 17.4% warmer than normal compared to weather that was 2.0% colder than normal in Fiscal 2001. As a result of the significantly warmer weather and the effects of a weak economy on commercial and industrial natural gas usage, distribution system throughput declined 8.8%.

The \$96.3 million decrease in Fiscal 2002 Gas Utility revenues reflects the impact of lower PGC rates, resulting from the pass through of lower natural gas costs to retail core-market customers, and the lower distribution system throughput. Gas Utility cost of gas was \$241.7 million in Fiscal 2002 compared to \$322.9 million in Fiscal 2001 reflecting lower natural gas costs and the decline in retail core-market throughput in Fiscal 2002.

The decline in Gas Utility margin principally reflects a \$6.0 million decline in retail core-market margin due to the lower sales; a \$6.6 million decline in interruptible margin due principally to the flowback of certain interruptible customer margin to retail core-market customers beginning December 1, 2001 pursuant to the Gas Restructuring Order; and lower firm delivery service total margin due to lower delivery service volumes. Interruptible customers are those who have the ability to switch to alternate fuels.

Gas Utility operating income declined \$10.7 million in Fiscal 2002 reflecting the previously mentioned decline in total margin and a decrease in pension income partially offset by lower

operating expenses. Operating expenses declined \$4.1 million primarily as a result of lower charges for uncollectible accounts and lower distribution system expenses. Depreciation expense declined \$1.2 million due to a change effective April 1, 2002 in the estimated useful lives of Gas Utility's natural gas distribution assets resulting from an asset life study required by the PUC. The decline in Gas Utility income before income taxes reflects the decrease in operating income offset by lower interest expense resulting from lower levels of bank loans outstanding and lower short-term interest rates.

ELECTRIC OPERATIONS. The decline in kilowatt-hour sales in Fiscal 2002 reflects the effects on heating-related sales of significantly warmer winter weather partially offset by the beneficial effect on air conditioning sales of warmer summer weather. Notwithstanding the decrease in total kilowatt-hour sales, revenues increased \$2.1 million principally due to an increase in state tax surcharge revenue and greater third-party sales of electricity produced by UGID's electric generation facilities. Electric Operations cost of sales was \$48.6 million in Fiscal 2002 compared to \$51.9 million in Fiscal 2001 principally reflecting the impact of the lower sales and lower purchased power unit costs partially offset by the full-period increase in cost of sales resulting from the December 2000 transfer of our Hunlock Creek electricity generation assets to our electricity generation joint venture, Energy Ventures. Subsequent to the formation of Energy Ventures, our electricity generating business purchases its share of the power produced by Energy Ventures rather than producing this electricity itself. As a result, the purchased cost of this power is reflected in cost of sales whereas prior to the formation of Energy Ventures electricity generation costs were reflected in operating and administrative expenses.

Electric Operations total margin increased \$4.2 million in Fiscal 2002 as a result of lower purchased power unit costs partially offset by the weather-driven decline in sales. Operating income increased \$2.5 million reflecting the greater total margin and lower operating and administrative costs subsequent to the formation of Energy Ventures partially offset by a decline in other income. The increase in Electric Operations income before income taxes reflects the increase in operating income and lower interest expense.

FINANCIAL CONDITION AND LIQUIDITY

CAPITALIZATION AND LIQUIDITY

Utilities total debt outstanding was \$258.0 million at September 30, 2003. Included in this amount is \$40.7 million under revolving credit agreements.

Utilities has revolving credit commitments under which it may borrow up to a total of \$107 million. These agreements are currently scheduled to expire in June 2005 and 2006. The revolving credit agreements have restrictions on such items as total debt, debt service and payments for investments. At September 30, 2003, Utilities was in compliance with these covenants. Utilities has a shelf registration statement with the U.S. Securities and Exchange Commission under which it may issue up to an additional \$40 million of Medium-Term Notes or other debt securities.

Based upon cash expected to be generated from Gas Utility and Electric Utility operations and

borrowings available under revolving credit agreements, management believes that Utilities will be able to meet its anticipated contractual and projected cash commitments during Fiscal 2004. For a more detailed discussion of Utilities' long-term debt and credit facilities, see Note 3 to Consolidated Financial Statements.

CASH FLOWS

OPERATING ACTIVITIES. Due to the seasonal nature of Utilities' businesses, cash flows from operating activities are generally strongest during the second and third fiscal quarters when customers pay for natural gas and electricity consumed during the peak heating season months. Conversely, operating cash flows are generally at their lowest levels during the first and fourth quarters when the Company's investment in working capital, principally accounts receivable and inventories, is generally greatest. Utilities uses its revolving credit agreements to satisfy its seasonal operating cash flow needs. Cash flow from operating activities was \$97.8 million in Fiscal 2003, \$55.1 million in Fiscal 2002, and \$76.1 million in Fiscal 2001. Cash flow from operating activities before changes in operating working capital was \$91.8 million in Fiscal 2003, \$78.4 million in Fiscal 2002, and \$72.3 million in Fiscal 2001. Changes in operating working capital provided \$6.0 million of operating cash flow in Fiscal 2003, used \$23.3 million of operating cash flow in Fiscal 2002, and provided \$3.8 million of operating cash flow in Fiscal 2001. The increase in Fiscal 2003 cash flow from operating activities principally reflects the increased operating results and greater cash flow from changes in Gas Utility deferred fuel overcollections and accrued income taxes partially offset by higher inventories resulting from greater natural gas prices.

INVESTING ACTIVITIES. Cash flow used in investing activities was \$43.1 million in Fiscal 2003, \$36.6 million in Fiscal 2002, and \$44.2 million in Fiscal 2001. Expenditures for property, plant and equipment were \$41.3 million in Fiscal 2003, \$35.9 million in Fiscal 2002, and \$36.8 million in Fiscal 2001. The higher Fiscal 2003 level of capital expenditures reflects greater Gas Utility distribution system capital expenditures. Net costs of property, plant and equipment disposals were also higher in Fiscal 2003 principally reflecting greater gas main replacement activity.

FINANCING ACTIVITIES. Cash flow used by financing activities was \$60.5 million in Fiscal 2003, \$20.1 million in Fiscal 2002, and \$39.8 million in Fiscal 2001. Financing activity cash flow changes are primarily due to issuances and repayments of long-term debt, net borrowings under revolving credit facilities, dividends on preferred shares subject to mandatory redemption and dividends to, and capital contributions from, UGI.

In October 2002, Utilities repaid \$26 million of maturing long-term debt. In August 2003, Utilities issued \$25 million face amount of ten-year notes at an interest rate of 5.37% and \$20 million face amount of 30-year notes at an interest rate of 6.50% under its Medium-Term Note program. The net proceeds from these issuances along with existing cash balances were used to repay \$50 million of 6.50% Senior Notes maturing in August 2003.

During Fiscal 2003 we paid cash dividends to UGI of \$33.9 million and dividends on our preferred shares subject to mandatory redemption of \$1.6 million of which \$0.4 million has been classified as

interest expense in accordance with Statement of Financial Accounting Standards ("SFAS") No. 150 (see "Recently Issued Accounting Pronouncements" below).

DIVIDEND OF UGID

In June 2003, the Company dividended all of the common stock of UGID, and UGID's subsidiaries, to UGI. The net book value of the assets and liabilities of UGID and its subsidiaries on the date of distribution totaling \$15.4 million (including \$2.6 million of cash) has been eliminated from the consolidated balance sheet. The results of operations of UGID and its subsidiaries through the date of distribution did not have a material effect on the Company's net income in Fiscal 2003, 2002 or 2001.

UTILITIES PENSION PLAN

UGI Utilities sponsors a defined benefit pension plan ("Pension Plan") for employees of UGI Utilities, UGI, and certain of UGI's other subsidiaries. During Fiscal 2002 and 2001, the market value of plan assets was negatively affected by declines in the equity markets. Equity market performance improved in Fiscal 2003 and, as a result, the fair value of Pension Plan assets increased to \$183.8 million at September 30, 2003 compared to \$166.1 million at September 30, 2002. At September 30, 2003 and 2002, the Pension Plan's assets exceeded its accumulated benefit obligations by \$7.3 million and \$7.2 million, respectively. The Company is in full compliance with regulations governing defined benefit pension plans, including ERISA rules and regulations, and does not anticipate it will be required to make a contribution to the Pension Plan in Fiscal 2004. Pre-tax pension income reflected in Fiscal 2003, 2002 and 2001 results was \$1.2 million, \$3.9 million and \$5.7 million, respectively. The decrease in pension income during this period reflects the significant declines in the market value of Plan assets and decreases in the discount rate assumptions. Pension expense in Fiscal 2004 is expected to be approximately \$1.1 million, compared to pension income of \$1.2 million in Fiscal 2003 due to decreases in the discount rate and expected return on Pension Plan assets assumptions.

CAPITAL EXPENDITURES

In the following table, we present capital expenditures by business segment for Fiscal 2003, Fiscal 2002 and Fiscal 2001. We also provide amounts we expect to spend in Fiscal 2004. We expect to finance a substantial portion of Fiscal 2004 capital expenditures from cash generated by operations and the remainder from borrowings under our credit facilities.

Year Ended September 30,	2004	2003	2002	2001
(Millions of dollars)	(estimate)			
Gas Utility	\$ 38.0	\$ 37.2	\$ 31.0	\$ 31.8
Electric Utility	4.9	4.1	4.9	5.0
	\$ 42.9	\$ 41.3	\$ 35.9	\$ 36.8

CONTRACTUAL CASH OBLIGATIONS AND COMMITMENTS

Utilities has certain contractual cash obligations that extend beyond Fiscal 2003 including scheduled repayments of long-term debt and redeemable preferred stock, operating lease obligations and unconditional purchase obligations for pipeline capacity, pipeline transportation and natural gas storage services, and commitments to purchase natural gas and electricity. The following table presents significant contractual cash obligations under agreements existing as of September 30, 2003 (in millions).

	Payments Due by Period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Long-term debt	\$217.0	\$ -	\$ 70.0	\$ 20.0	\$127.0
UGI Utilities preferred shares subject to mandatory redemption	20.0	-	2.0	2.0	16.0
Operating leases	13.4	2.9	4.5	2.8	3.2
Gas Utility and Electric Utility supply, storage and service contracts	406.9	157.1	136.0	39.8	74.0
Total	\$657.3	\$160.0	\$212.5	\$ 64.6	\$220.2

RELATED PARTY TRANSACTIONS

UGI provides administrative and general support to UGI Utilities. UGI bills UGI Utilities monthly for an allocated share of its general corporate expenses. This allocation is based upon a three-factor formula which includes revenues, costs and expenses, and net assets. These billed expenses totaled \$9.4 million in Fiscal 2003, \$6.7 million in Fiscal 2002 and \$5.3 million in Fiscal 2001 and are classified as operating and administrative expenses - related parties in the Consolidated Statements of Income.

In accordance with the terms of an Affiliated Interest Agreement ("Affiliated Agreement") approved by the PUC, Gas Utility enters into wholesale natural gas transactions with Energy Services, Inc. ("Energy Services"), a wholly owned second-tier subsidiary of UGI, for winter storage service and, from time to time, purchases of natural gas. In addition, from time to time, the Company sells natural gas to Energy Services pursuant to the terms of the Affiliated Agreement. These transactions did not have a material effect on the Company's net income during Fiscal 2003, 2002 and 2001. For additional information on these transactions, see Note 13 to Consolidated Financial Statements included elsewhere in this Form 10-K.

OFF-BALANCE SHEET ARRANGEMENTS

We lease various buildings and other facilities, transportation, computer and office equipment. We account for these arrangements as operating leases. These off-balance sheet arrangements enable us to lease facilities and equipment from third parties rather than, among other options, purchasing the equipment and facilities using on-balance sheet financing. For a summary of

scheduled future payments under these lease arrangements, see "Contractual Cash Obligations and Commitments."

REGULATORY MATTERS

As a result of Pennsylvania's Natural Gas Choice and Competition Act ("Gas Competition Act") signed into law on June 22, 1999, all natural gas consumers in Pennsylvania have the ability to purchase their gas supplies from the supplier of their choice. Under the Gas Competition Act, local gas distribution companies ("LDCs") like Gas Utility may continue to sell gas to customers, and such sales of gas, as well as distribution services provided by LDCs, continue to be subject to rate regulation by the PUC. LDCs serve as the supplier of last resort for all residential and small commercial and industrial customers. As of September 30, 2003, less than five percent of Gas Utility's retail customers purchase their gas from alternative suppliers.

On June 29, 2000, the PUC issued its order ("Gas Restructuring Order") approving Gas Utility's restructuring plan filed by Gas Utility pursuant to the Gas Competition Act. Among other things, the implementation of the Gas Restructuring Order resulted in an increase in Gas Utility's retail core-market base rates effective October 1, 2000. This base rate increase was designed to generate approximately \$16.7 million in additional net annual revenues. In accordance with the Gas Restructuring Order, Gas Utility reduced its retail core-market PGC rates by an annualized amount of \$16.7 million in the first 14 months following the October 1, 2000 base rate increase.

Effective December 1, 2001, Gas Utility was required to reduce its retail core-market PGC rates by amounts equal to the margin it receives from interruptible customers using pipeline capacity contracted by Gas Utility for retail core-market customers. As a result, Gas Utility operating results are more sensitive to the effects of heating-season weather and less sensitive to the market prices of alternative fuels.

The PUC approved a settlement establishing rules for Electric Utility Provider of Last Resort ("POLR") service on March 28, 2002, and a separate settlement that modified these rules on June 13, 2002 (collectively, the "POLR Settlement"). Under the terms of the POLR Settlement, Electric Utility terminated stranded cost recovery through its CTC from commercial and industrial ("C&I") customers on July 31, 2002, and from residential customers on October 31, 2002, and is no longer subject to the statutory generation rate caps as of August 1, 2002 for C&I customers and as of November 1, 2002 for residential customers. Stranded costs are electric generation-related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market. Charges for generation service (1) were initially set at a level equal to the rates paid by Electric Utility customers for POLR service under the statutory rate caps; (2) may be raised by up to 5% of the total rate for distribution, transmission and generation through December 2004; and (3) may be set at market rates thereafter. Electric Utility may also offer multiple-year POLR contracts to its customers. The POLR Settlement provides for annual

shopping periods during which customers may elect to remain on POLR service or choose an alternate supplier. Customers who do not select an alternate supplier will be obligated to remain on POLR service until the next shopping period. Residential customers who return to POLR service at a time other than during the annual shopping period must remain on POLR service until the date of the second open shopping period after returning. C&I customers who return to POLR service at a time other than during the annual shopping period must remain on POLR service until the next open shopping period, and may, in certain circumstances, be subject to generation rate surcharges. Consistent with the terms of the POLR Settlement, Electric Utility's POLR rates for commercial and industrial customers will increase beginning January 2004, and for residential customers beginning June 2004. Also, Electric Utility has offered and entered into multiple-year POLR contracts with certain of its customers. Additionally, pursuant to the requirements of the Electricity Choice Act, the PUC is currently developing post-rate cap POLR regulations that are expected to further define post-rate cap POLR service obligations and pricing. As of September 30, 2003, less than 1% of Electric Utility's customers have chosen an alternative electricity generation supplier.

We account for the operations of Gas Utility and Electric Utility in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). SFAS 71 allows us to defer expenses and revenues on the balance sheet as regulatory assets and liabilities when it is probable that those expenses and income will be allowed in the ratemaking process in a period different from the period in which they would have been reflected in the income statement of an unregulated company. These deferred assets and liabilities are then flowed through the income statement in the period in which the same amounts are included in rates and recovered from or refunded to customers. As required by SFAS 71, we monitor our regulatory and competitive environments to determine whether the recovery of our regulatory assets continues to be probable. If we were to determine that recovery of these regulatory assets is no longer probable, such assets would be written off against earnings.

MANUFACTURED GAS PLANTS

From the late 1800s through the mid-1900s, Utilities and its former subsidiaries owned and operated a number of manufactured gas plants ("MGPs") prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the businesses of some gas companies under agreement. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, Utilities divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because Gas Utility is currently permitted to include in rates, through future base rate proceedings, prudently incurred remediation costs associated with such sites. Utilities has been notified of several sites outside Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination or performing environmental remediation. Utilities is currently litigating three claims against it relating to out-of-state sites.

Management believes that under applicable law Utilities should not be liable in those instances in which a former subsidiary owned or operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that Utilities directly owned or operated, or that were owned or operated by former subsidiaries of Utilities, if a court were to conclude that (1) the subsidiary's separate corporate form should be disregarded or (2) Utilities should be considered to have been an operator because of its conduct with respect to its subsidiary's MGP.

With respect to a manufactured gas plant site in Manchester, New Hampshire, EnergyNorth Natural Gas, Inc. ("EnergyNorth") filed suit against UGI Utilities seeking contribution from UGI Utilities for response and remediation costs associated with the contamination on the site of a former MGP allegedly operated by former subsidiaries of UGI Utilities. UGI Utilities and EnergyNorth agreed to a settlement of this matter in June 2003. UGI Utilities recorded its estimated liability for contingent payments to EnergyNorth under the terms of the settlement agreement which did not have a material effect on Fiscal 2003 net income.

In April 2003, Citizens Communications Company ("Citizens") served a complaint naming UGI Utilities as a third-party defendant in a civil action pending in United States District Court for the District of Maine. In that action, the plaintiff, City of Bangor, Maine ("City") sued Citizens to recover environmental response costs associated with MGP wastes generated at a plant allegedly operated by Citizens' predecessors at a site on the Penobscot River. Citizens subsequently joined UGI Utilities and ten other third-party defendants alleging that the third-party defendants are responsible for an equitable share of costs Citizens may be required to pay to the City for cleaning up tar deposits in the Penobscot River. The City believes that it could cost as much as \$50 million to clean up the river. UGI Utilities believes that it has good defenses to the claim.

By letter dated July 29, 2003, Atlanta Gas Light Company ("AGL") served UGI Utilities with a complaint filed in the United States District Court for the Middle District of Florida in which AGL alleges that UGI Utilities is responsible for 20% of approximately \$8.0 million incurred by AGL in the investigation and remediation of a former MGP site in St. Augustine, Florida. UGI Utilities formerly owned stock of the St. Augustine Gas Company, the owner and operator of the MGP. UGI Utilities believes that it has good defenses to the claim and is defending the suit.

On September 20, 2001, Consolidated Edison Company of New York ("ConEd") filed suit against UGI Utilities in the United States District Court for the Southern District of New York, seeking contribution from UGI Utilities for an allocated share of response costs associated with investigating and assessing gas plant related contamination at former MGP sites in Westchester County, New York. The complaint alleges that UGI Utilities "owned and operated" the MGPs prior to 1904. The complaint also seeks a declaration that UGI Utilities is responsible for an allocated percentage of future investigative and remedial costs at the sites. ConEd believes that the cost of remediation for all of the sites could exceed \$70 million. UGI Utilities believes that it has good defenses to the claim and is defending the suit. In November 2003, the court granted UGI Utilities' motion for summary judgment in part, dismissing all claims premised on a disregard of the separate corporate form of UGI Utilities' former subsidiaries and dismissing claims premised on UGI Utilities' operation of three of the MGPs under operating leases with

ConEd's predecessors. The court reserved decision on the remaining theory of liability, that UGI Utilities was a direct operator of the remaining MGPs.

MARKET RISK DISCLOSURES

Gas Utility's tariffs contain clauses that permit recovery of substantially all of the prudently incurred costs of natural gas it sells to its customers. The recovery clauses provide for a periodic adjustment for the difference between the total amounts actually collected from customers through PGC rates and the recoverable costs incurred. Because of this ratemaking mechanism, there is limited commodity price risk associated with our Gas Utility operations. Gas Utility uses exchange-traded natural gas call option contracts to reduce volatility in the cost of gas it purchases for its retail core-market customers. The cost of these call option contracts, net of associated gains, is included in Gas Utility's PGC recovery mechanism.

Prior to September 2002, Electric Utility purchased all of its electric power needs, in excess of the electric power it obtained from its interests in electric generating facilities, under third-party power supply arrangements of various lengths and on the spot market. Beginning September 2002, Electric Utility began purchasing its power needs exclusively from third-party electricity suppliers under fixed-price energy and capacity contracts and, to a much lesser extent, on the spot market and UGID, through the date of its transfer to UGI in June 2003, began selling electric power produced from its interests in electricity generating facilities to third parties on the spot market. Prices for electricity can be volatile especially during periods of high demand or tight supply. Although the generation component of Electric Utility's rates is subject to various rate cap provisions as a result of the POLR Settlement, Electric Utility's fixed-price contracts with electricity suppliers mitigate most risks associated with offering customers a fixed price during the contract periods. However, should any of the suppliers under these contracts fail to provide electric power under the terms of the power and capacity contracts, increases, if any, in the cost of replacement power or capacity would negatively impact Electric Utility results. In order to reduce this non-performance risk, Electric Utility has diversified its purchases across several suppliers and entered into bilateral collateral arrangements with certain of them.

We have both fixed-rate and variable-rate debt. Changes in interest rates impact the cash flows of variable-rate debt but generally do not impact its fair value. Conversely, changes in interest rates impact the fair value of fixed-rate debt but do not impact their cash flows.

Our variable-rate debt includes borrowings under our revolving credit agreements. These agreements provide for interest rates on borrowings that are indexed to short-term market interest rates. Based upon the average level of borrowings outstanding under these agreements in Fiscal 2003 and Fiscal 2002, an increase in short-term interest rates of 100 basis points (1%) would have increased annual interest expense by \$0.3 million and \$0.5 million, respectively.

The remainder of our debt outstanding is subject to fixed rates of interest. A 100 basis point increase in market interest rates would result in decreases in the fair value of this fixed-rate debt of \$14.0 million and \$11.0 million at September 30, 2003 and 2002, respectively. A 100 basis point

decrease in market interest rates would result in increases in the fair value of this fixed-rate debt of \$15.7 million and \$12.0 million at September 30, 2003 and 2002, respectively.

In order to reduce interest rate risk associated with near-term issuances of fixed-rate debt, we may enter into interest rate protection agreements. The fair value of our unsettled interest rate protection agreement, which has been designated and qualifies as a cash flow hedge, was \$0.4 million at September 30, 2003. An adverse change in interest rates on ten-year U.S. treasury notes of 50 basis points would result in a \$0.4 million decrease in the fair value of this interest rate protection agreement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the selection and application of appropriate accounting principles to the relevant facts and circumstances of the Company's operations and the use of estimates made by management. The Company has identified the following critical accounting policies that are most important to the portrayal of the Company's financial condition and results of operations. Changes in these policies could have a material effect on the financial statements. The application of these accounting policies necessarily requires management's most subjective or complex judgments regarding estimates and projected outcomes of future events which could have a material impact on the financial statements. Management has reviewed these critical accounting policies, and the estimates and assumptions associated with them, with its Audit Committee. In addition, management has reviewed the following disclosures regarding the application of these critical accounting policies with the Audit Committee.

LITIGATION ACCRUALS AND ENVIRONMENTAL REMEDIATION LIABILITIES. We are involved in litigation regarding pending claims and legal actions that arise in the normal course of our businesses. In addition, Utilities and its former subsidiaries owned and operated a number of MGPs in Pennsylvania and elsewhere at which hazardous substances may be present. In accordance with accounting principles generally accepted in the United States of America, we establish reserves for pending claims and legal actions or environmental remediation obligations when it is probable that a liability exists and the amount or range of amounts can be reasonably estimated. Reasonable estimates involve management judgments based on a broad range of information and prior experience. These judgments are reviewed quarterly as more information is received and the amounts reserved are updated as necessary. Such estimated reserves may differ materially from the actual liability, and such reserves may change materially as more information becomes available and estimated reserves are adjusted.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT. We compute depreciation on Utilities property, plant and equipment on a straight-line basis over the average remaining lives of its various classes of depreciable property. Changes in the estimated useful lives of property, plant and equipment could have a material effect on our results of operations.

REGULATORY ASSETS AND LIABILITIES. Gas Utility and Electric Utility's distribution businesses are subject to regulation by the Pennsylvania Public Utility Commission. In accordance with SFAS

No. 71, "Accounting for the Effects of Certain Types of Regulation," we record the effects of rate regulation in our financial statements as regulatory assets or regulatory liabilities. We continually assess whether the regulatory assets are probable of future recovery by evaluating the regulatory environment, recent rate orders and public statements issued by the PUC, and the status of any pending deregulation legislation. If future recovery of regulatory assets ceases to be probable, the elimination of those regulatory assets would adversely impact our results of operations. As of September 30, 2003, our regulatory assets totaled \$60.3 million.

DEFINED BENEFIT PENSION PLAN. The costs of providing benefits under our Pension Plan are dependent on historical information such as employee age, length of service, level of compensation and the actual rate of return on plan assets. In addition, certain assumptions relating to the future are utilized including, the discount rate applied to benefit obligations, the expected rate of return on plan assets and the rate of compensation increase. Pension Plan assets are held in trust and consist principally of equity and fixed income mutual funds and a commingled bond fund. Changes in plan assumptions as well as fluctuations in actual equity or bond market returns could have a material impact on future pension costs.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS 149 (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying- rate, price or index to conform it to language used in FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," and (4) amends certain other existing pronouncements. SFAS 149 did not change the methods the Company uses to account for and report its derivatives and hedging activities.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS 150"). SFAS 150 is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 establishes guidelines on how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 further defines and requires that certain instruments within its scope be classified as liabilities on the financial statements. The adoption of SFAS 150 resulted in the Company presenting its preferred shares subject to mandatory redemption in the liabilities section of the balance sheet, and reflecting dividends paid on these shares as a component of interest expense, for periods presented after June 30, 2003. Because SFAS 150 specifically prohibits the restatement of financial statements prior to its adoption, prior period amounts have not been reclassified.

In January 2003, the FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which clarifies Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 is effective immediately for variable interest

entities created or obtained after January 31, 2003. For variable interests created or acquired before February 1, 2003, FIN 46 is effective for the first fiscal or interim period beginning after December 15, 2003. If certain conditions are met, FIN 46 requires the primary beneficiary to consolidate certain variable interest entities in which the other equity investors lack the essential characteristics of a controlling financial interest or their investment at risk is not sufficient to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. The adoption of FIN 46 is not expected to impact the Company's financial position or results of operations.

FORWARD-LOOKING STATEMENTS

Information contained above in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements use forward-looking words such as "believe," "plan," "anticipate," "continue," "estimate," "expect," "may," "will," or other similar words. These statements discuss plans, strategies, events or developments that we expect or anticipate will or may occur in the future.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe that we have chosen these assumptions or bases in good faith and that they are reasonable. However, we caution you that actual results almost always vary from assumed facts or bases, and the differences between actual results and assumed facts or bases can be material, depending on the circumstances. When considering forward-looking statements, you should keep in mind the following important factors which could affect our future results and could cause those results to differ materially from those expressed in our forward-looking statements: (1) adverse weather conditions resulting in reduced demand; (2) price volatility and availability of oil, electricity and natural gas and the capacity to transport them to market areas; (3) changes in laws and regulations, including safety, tax and accounting matters; (4) competitive pressures from the same and alternative energy sources; (5) liability for environmental claims; (6) customer conservation measures and improvements in energy efficiency and technology resulting in reduced demand; (7) adverse labor relations; (8) large customer, counterparty or supplier defaults; (9) liability for personal injury and property damage arising from explosions and other catastrophic events, including acts of terrorism, resulting from operating hazards and risks incidental to generating and distributing electricity and transporting, storing and distributing natural gas, including liability in excess of insurance coverage; (10) political, regulatory and economic conditions in the United States; and (11) interest rate fluctuations and other capital market conditions.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. We undertake no obligation to update publicly any forward-looking statement whether as a result of new information or future events except as required by federal securities laws.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

"Quantitative and Qualitative Disclosures About Market Risk" are contained in Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption "Market Risk Disclosures" and are incorporated here by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and the financial statement schedule set forth on pages F-1 to F-28 and page S-1 of this Report are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During fiscal year 2002, the Company engaged a new independent auditor, PricewaterhouseCoopers LLP. The information required by Item 9 is incorporated in this Report by reference to the Company's Current Report on Form 8-K dated May 21, 2002.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report were designed and functioning effectively to provide reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company believes that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

(b) Change in Internal Control over Financial Reporting

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART IV: ADDITIONAL EXHIBITS, SCHEDULES AND REPORTS

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K

(A) DOCUMENTS FILED AS PART OF THIS REPORT:

(1) FINANCIAL STATEMENTS:

Included under Item 8 are the following financial statements and supplementary data:

Reports of Independent Public Accountants

Consolidated Balance Sheets as of September 30, 2003 and 2002

Consolidated Statements of Income for the fiscal years ended September 30, 2003, 2002 and 2001

Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2003, 2002 and 2001

Consolidated Statements of Stockholders' Equity for the fiscal years ended September 30, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULE:

For the years ended September 30, 2003, 2002 and 2001

II - Valuation and Qualifying Accounts

We have omitted all other financial statement schedules because the required information is (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or notes thereto contained in this report.

NOTICE REGARDING ARTHUR ANDERSEN LLP

Arthur Andersen LLP audited our consolidated financial statements for the three years in the period ended September 30, 2001 and issued a report thereon dated November 16, 2001. Arthur Andersen LLP has not reissued its report or consented to the incorporation by reference of such report into the Company's prospectuses relating to offering and sale of our debt

securities. On June 15, 2002, Arthur Andersen LLP was convicted of obstruction of justice by a federal jury in Houston, Texas in connection with Arthur Andersen LLP's work for Enron Corp. On September 15, 2002, a federal judge upheld this conviction. Arthur Andersen LLP ceased its audit practice before the SEC on August 31, 2002. Effective May 21, 2002, we terminated the engagement of Arthur Andersen LLP as our independent accountants and engaged PricewaterhouseCoopers LLP to serve as our independent accountants for the fiscal year ending September 30, 2002. Because of the circumstances currently affecting Arthur Andersen LLP, as a practical matter it may not be able to satisfy any claims arising from the provision of auditing services to us, including claims available to security holders under federal and state securities laws.

(4) LIST OF EXHIBITS:

The exhibits filed as part of this report are as follows (exhibits incorporated by reference are set forth with the name of the registrant, the type of report and registration number or last date of the period for which it was filed, and the exhibit number in such filing):

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
3.1	Utilities' Articles of Incorporation	Utilities	Registration Statement No. 333-72540	3
*3.2	Bylaws of UGI Utilities as amended through September 30, 2003			
4	Instruments defining the rights of security holders, including indentures. (The Company agrees to furnish to the Commission upon request a copy of any instrument defining the rights of holders of its long-term debt not required to be filed pursuant to the description of Exhibit 4 contained in Item 601 of Regulation S-K)			
4.1	Utilities' Articles of Incorporation and Bylaws referred to in Exhibit Nos. 3.1 and 3.2			
4.2	[Intentionally omitted]			
4.3	Form of Fixed Rate Medium-Term Note	Utilities	Form 8-K (8/26/94)	(4)i
4.4	Form of Fixed Rate Series B Medium-Term Note	Utilities	Form 8-K (8/1/96)	4(i)

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
4.5	Form of Floating Rate Series B Medium-Term Note	Utilities	Form 8-K (8/1/96)	4(ii)
4.6	Service Agreement for comprehensive delivery service (Rate CDS) dated February 23, 1998 between UGI Utilities, Inc. and Texas Eastern Transmission Corporation	UGI	Form 10-K (9/30/00)	10.40
4.7	Officer's Certificate establishing Medium-Term Notes series	Utilities	Form 8-K (8/26/94)	4(iv)
4.8	[Intentionally omitted]			
4.9	Form of Officer's Certificate establishing Series B Medium-Term Notes under the Indenture	Utilities	Form 8-K (8/1/96)	4(iv)
4.10	Forms of Floating Rate and Fixed Rate Series C Medium-Term Notes	Utilities	Form 8-K (5/21/02)	4.1
4.11	Form of Officers' Certificate establishing Series C Medium-Term Notes under the Indenture	Utilities	Form 8-K (5/21/02)	4.2
10.1	Service Agreement (Rate FSS) dated as of November 1, 1989 between Utilities and Columbia, as modified pursuant to the orders of the Federal Energy Regulatory Commission at Docket No. RS92-5-000 reported at Columbia Gas Transmission Corp., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERCP. 61,365 (1993)	UGI	Form 10-K (9/30/95)	10.5
10.2	Service Agreement (Rate FTS) dated June 1, 1987 between Utilities and Columbia, as modified by Supplement No. 1 dated October 1, 1988; Supplement No. 2 dated November 1, 1989; Supplement No. 3 dated November 1, 1990; Supplement No. 4 dated November 1, 1990; and Supplement No. 5 dated January 1, 1991, as further modified pursuant to the orders of the Federal Energy Regulatory Commission at Docket No. RS92-5-000 reported at Columbia Gas Transmission Corp., 64 FERC P. 61,060 (1993), order on rehearing, 64 FERCP. 61,365 (1993)	Utilities	Form 10-K (12/31/90)	(10)o.
10.3	Transportation Service Agreement (Rate FTS-1) dated November 1, 1989 between Utilities and Columbia Gulf Transmission Company, as modified pursuant to the orders of the Federal Energy Regulatory Commission in Docket No. RP93-6-000 reported at Columbia Gulf Transmission Co., 64 FERCP. 61,060 (1993), order on rehearing, 64 FERCP. 61,365 (1993)	Utilities	Form 10-K (12/31/90)	(10)p.
10.4**	UGI Corporation 1992 Directors' Stock Plan Amended and Restated as of April 29, 2003	UGI	Form 10-Q (3/31/03)	10.2

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
10.5**	UGI Corporation Directors' Deferred Compensation Plan Amended and Restated as of January 1, 2000	UGI	Form 10-K (9/30/00)	10.6
10.6**	UGI Corporation Directors' Equity Compensation Plan Amended and Restated as of April 29, 2003	UGI	Form 10-Q (3/31/03)	10.3
10.7**	[Intentionally omitted]			
10.8**	UGI Corporation Annual Bonus Plan dated March 8, 1996	UGI	Form 10-Q (6/30/96)	10.4
10.9**	UGI Utilities, Inc. Annual Bonus Plan dated March 8, 1996	Utilities	Form 10-Q (6/30/96)	10.4
10.10**	1997 Stock Purchase Loan Plan	UGI	Form 10-K (9/30/97)	10.16
10.11**	UGI Corporation Senior Executive Employee Severance Pay Plan effective January 1, 1997	UGI	Form 10-K (9/30/97)	10.12
10.12**	UGI Corporation 1992 Non-Qualified Stock Option Plan, as amended	UGI	Form 10-K (9/30/00)	10.39
10.13**	UGI Corporation 2000 Directors' Stock Option Plan Amended and Restated as of April 29, 2003	UGI	Form 10-Q (3/31/03)	10.1
10.14**	UGI Corporation 2000 Stock Incentive Plan Amended and Restated as of April 29, 2003	UGI	Form 10-Q (3/31/03)	10.5
10.15	Service Agreement for comprehensive delivery service (Rate CDS) dated February 23, 1999 between UGI Utilities, Inc. and Texas Eastern Transmission Corporation	UGI	Form 10-K (9/30/00)	10.41
10.16**	UGI Corporation 1997 Stock Option and Dividend Equivalent Plan Amended and Restated as of April 29, 2003	UGI	Form 10-Q (3/31/03)	10.4
10.17**	UGI Corporation Supplemental Executive Retirement Plan Amended and Restated effective October 1, 1996	UGI	Form 10-Q (6/30/98)	10
10.18**	UGI Corporation 1992 Non-Qualified Stock Option Plan Amended and Restated as of April 29, 2003	UGI	Form 10-Q (3/31/03)	10.3
*10.19**	UGI Utilities, Inc. Severance Plan for Exempt Employees in Salary Grades 34-37 and Salary Grades 18-23 effective January 1, 1999			
10.20**	Description of Change of Control arrangements for Mr. Greenberg	UGI	Form 10-K (9/30/99)	10.33
*10.21**	Change of Control Agreement for Mr. Chaney			
*10.22**	Form of Change of Control Agreement for executive officers other than Messrs. Chaney and Greenberg			
10.23	[Intentionally omitted]			

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
10.24	[Intentionally omitted]			
10.25	Storage Transportation Service Agreement (Rate Schedule SST) between Utilities and Columbia dated November 1, 1993, as modified pursuant to orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.25
10.26	No-Notice Transportation Service Agreement (Rate Schedule NTS) between Utilities and Columbia dated November 1, 1993, as modified pursuant to orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.26
10.27	No-Notice Transportation Service Agreement (Rate Schedule CDS) between Utilities and Texas Eastern Transmission dated February 23, 1999, as modified pursuant to various orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.27
10.28	No-Notice Transportation Service Agreement (Rate Schedule CDS) between Utilities and Texas Eastern Transmission dated October 31, 2000, as modified pursuant to various orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.28
10.29	Firm Transportation Service Agreement (Rate Schedule FT-1) between Utilities and Texas Eastern Transmission dated June 15, 1999, as modified pursuant to various orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.29
10.30	Firm Transportation Service Agreement (Rate Schedule FT-1) between Utilities and Texas Eastern Transmission dated October 31, 2000, as modified pursuant to various orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.30
10.31	Firm Transportation Service Agreement (Rate Schedule FT) between Utilities and Transcontinental Gas Pipe Line dated October 1, 1996, as modified pursuant to various orders of the Federal Energy Regulatory Commission	Utilities	Form 10-K (9/30/02)	10.31
*12.1	Computation of Ratio of Earnings to Fixed Charges			
*12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends			
*14	Code of Ethics for principal executive, financial and accounting officers			
*23	Consent of PricewaterhouseCoopers LLP			
*31.1	Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-K for the year ended September 30, 2003 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			

INCORPORATION BY REFERENCE

EXHIBIT NO.	EXHIBIT	REGISTRANT	FILING	EXHIBIT
*31.2	Certification by the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the year ended September 30, 2003 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
*32	Certification by the Chief Executive Officer and the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the fiscal year ended September 30, 2003			

* Filed herewith.

** As required by Item 14(a)(3), this exhibit is identified as a compensatory plan or arrangement.

(b) REPORTS ON FORM 8-K:

The Company furnished information in a Current Report on Form 8-K during the fourth quarter of fiscal year 2003 as follows:

Date of Report	Item Number(s)	Content
07/30/03	7, 12	Press Release reporting financial results for the third fiscal quarter ended June 30, 2003

SIGNATURES

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

UGI UTILITIES, INC.

Date: December 16, 2003

By: John C. Barney

John C. Barney
Senior Vice President - Finance

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on December 16, 2003 by the following persons on behalf of the Registrant in the capacities indicated.

SIGNATURE

TITLE

Robert J. Chaney ----- Robert J. Chaney	President and Chief Executive Officer (Principal Executive Officer) and Director
Lon R. Greenberg ----- Lon R. Greenberg	Chairman and Director
John C. Barney ----- John C. Barney	Senior Vice President - Finance (Principal Financial Officer and Principal Accounting Officer)
Stephen D. Ban ----- Stephen D. Ban	Director
Thomas F. Donovan ----- Thomas F. Donovan	Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on December 16, 2003 by the following persons on behalf of the Registrant in the capacities indicated.

SIGNATURE -----	TITLE -----
Ernest E. Jones ----- Ernest E. Jones	Director
Richard C. Gozon ----- Richard C. Gozon	Director
Anne Pol ----- Anne Pol	Director
Marvin O. Schlanger ----- Marvin O. Schlanger	Director
James W. Stratton ----- James W. Stratton	Director

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT:

No annual report or proxy material was sent to security holders in fiscal year 2003.

UGI UTILITIES, INC.

FINANCIAL INFORMATION

FOR INCLUSION IN ANNUAL REPORT ON FORM 10-K

YEAR ENDED SEPTEMBER 30, 2003

F-1

UGI UTILITIES, INC.

INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT
SCHEDULE

	Pages -----
Financial Statements:	
Reports of Independent Auditors	F-3 to F-4
Consolidated Balance Sheets as of September 30, 2003 and 2002	F-5 to F-6
Consolidated Statements of Income for the years ended September 30, 2003, 2002 and 2001	F-7
Consolidated Statements of Cash Flows for the years ended September 30, 2003, 2002 and 2001	F-8
Consolidated Statements of Stockholder's Equity for the years ended September 30, 2003, 2002 and 2001	F-9
Notes to Consolidated Financial Statements	F-10 to F-28
Financial Statement Schedule:	
For the years ended September 30, 2003, 2002 and 2001:	
II - Valuation and Qualifying Accounts	S-1

We have omitted all other financial statement schedules because the required information is either (1) not present; (2) not present in amounts sufficient to require submission of the schedule; or (3) included elsewhere in the financial statements or related notes.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholder of
UGI Utilities, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15a (1) and (2) present fairly, in all material respects, the financial position of UGI Utilities, Inc. and its subsidiaries at September 30, 2003 and 2002, and the results of their operations and their cash flows for each of the two years in the period ended September 30, 2003 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15a (1) and (2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule 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 audits 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 consolidated financial statements of UGI Utilities, Inc. and its subsidiaries as of and for the year ended September 30, 2001 were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated November 16, 2001.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
November 17, 2003

THIS REPORT IS A COPY OF THE PREVIOUSLY ISSUED ACCOUNTANT'S
REPORT OF ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY
ARTHUR ANDERSEN LLP.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholder of
UGI Utilities, Inc.:

We have audited the accompanying consolidated balance sheets of UGI Utilities, Inc. and subsidiaries as of September 30, 2001 and 2000, and the related consolidated statements of income, cash flows and stockholder's equity for each of the three years in the period ended September 30, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UGI Utilities, Inc. and subsidiaries as of September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the Index to Financial Statements and Financial Statement Schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
November 16, 2001

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)

	September 30, 2003	2002
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 304	\$ 6,090
Accounts receivable (less allowances for doubtful accounts of \$3,275 and \$1,972, respectively)	30,101	38,554
Accrued utility revenues	7,431	8,069
Inventories	54,017	38,654
Deferred income taxes	10,375	2,610
Income taxes recoverable	-	6,892
Deferred fuel costs	-	4,304
Prepaid expenses and other current assets	5,552	3,151
	-----	-----
Total current assets	107,780	108,324
Property, plant and equipment		
Gas utility	791,164	760,161
Electric operations	103,917	111,265
General	12,777	11,909
	-----	-----
	907,858	883,335
Less accumulated depreciation and amortization	(296,871)	(290,194)
	-----	-----
Net property, plant and equipment	610,987	593,141
Regulatory assets	60,253	57,685
Other assets	30,028	38,973
	-----	-----
Total assets	\$ 809,048	\$ 798,123
	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except per share)

	September 30, 2003	2002
	-----	-----
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ -	\$ 76,000
Bank loans	40,700	37,200
Accounts payable	55,298	57,499
Employee compensation and benefits accrued	8,457	8,984
Dividends and interest accrued	6,466	5,443
Income taxes accrued	479	-
Customer deposits and refunds	15,074	14,515
Deferred fuel costs	14,734	-
Other current liabilities	11,703	16,576
	-----	-----
Total current liabilities	152,911	216,217
Long-term debt	217,271	172,369
Deferred income taxes	144,176	131,483
Deferred investment tax credits	7,987	8,385
Other noncurrent liabilities	11,951	11,815
Preferred shares subject to mandatory redemption, without par value	20,000	-
Commitments and contingencies (note 8)		
	-----	-----
Total liabilities	554,296	540,269
Preferred shares subject to mandatory redemption, without par value	-	20,000
Common stockholder's equity:		
Common Stock, \$2.25 par value (authorized - 40,000,000 shares; issued and outstanding - 26,781,785 shares)	60,259	60,259
Additional paid-in capital	79,046	73,057
Retained earnings	117,496	107,312
Accumulated other comprehensive loss	(2,049)	(2,774)
	-----	-----
Total common stockholder's equity	254,752	237,854
	-----	-----
Total liabilities and stockholder's equity	\$ 809,048	\$ 798,123
	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of dollars)

	Year Ended September 30,		
	2003	2002	2001
Revenues	\$ 636,758	\$ 490,552	\$ 584,762
Costs and expenses:			
Gas, fuel and purchased power	392,901	290,282	374,781
Operating and administrative expenses	91,947	80,910	88,310
Operating and administrative expenses - related parties	9,352	6,664	5,277
Taxes other than income taxes	12,195	11,930	9,182
Depreciation and amortization	21,240	22,172	23,767
Other income, net	(8,745)	(11,723)	(15,111)
	518,890	400,235	486,206
Operating income	117,868	90,317	98,556
Interest expense	17,656	16,652	18,988
Income before income taxes	100,212	73,665	79,568
Income taxes	39,540	29,570	31,431
Net income	60,672	44,095	48,137
Dividends on preferred shares subject to mandatory redemption	1,163	1,550	1,550
Net income after dividends on preferred shares subject to mandatory redemption	\$ 59,509	\$ 42,545	\$ 46,587
	=====	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

	Year Ended September 30,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 60,672	\$ 44,095	\$ 48,137
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,240	22,172	23,767
Deferred income taxes, net	2,097	11,114	(2,016)
Provision for uncollectible accounts	7,778	5,270	8,269
Pension income	(1,242)	(3,857)	(5,671)
Other	1,284	(391)	(177)
Net change in:			
Accounts receivable and accrued utility revenues	(610)	(1,631)	(14,704)
Inventories	(15,601)	9,420	(14,508)
Deferred fuel costs	19,038	(7,056)	9,948
Accounts payable	(454)	(9,957)	13,318
Other current assets and liabilities	3,599	(14,123)	9,769
Net cash provided by operating activities	97,801	55,056	76,132
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for property, plant and equipment	(41,297)	(35,884)	(36,783)
Net costs of property, plant and equipment disposals	(1,831)	(704)	(1,407)
Cash contribution to partnership	-	-	(6,000)
Net cash used by investing activities	(43,128)	(36,588)	(44,190)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends	(35,081)	(39,489)	(36,809)
Cash portion of UGID dividend	(2,572)	-	-
Issuance of long-term debt	44,694	40,000	50,603
Repayment of long-term debt	(76,000)	-	(15,000)
Bank loans increase (decrease)	3,500	(20,600)	(42,600)
Capital contribution from UGI Corporation	5,000	-	4,000
Net cash used by financing activities	(60,459)	(20,089)	(39,806)
Cash and cash equivalents decrease	\$ (5,786)	\$ (1,621)	\$ (7,864)
CASH AND CASH EQUIVALENTS:			
End of year	\$ 304	\$ 6,090	\$ 7,711
Beginning of year	6,090	7,711	15,575
Decrease	\$ (5,786)	\$ (1,621)	\$ (7,864)

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(Thousands of dollars)

	Common Stock -----	Additional Paid-in Capital -----	Retained Earnings -----	Accumulated Other Comprehensive Loss ----	Total Common Stockholder's Equity -----
Balance September 30, 2000	\$60,259	\$68,559	\$ 95,655	\$ -	\$ 224,473
Net income			48,137		48,137
Capital contribution by UGI Corporation		4,000			4,000
Cash dividends - common stock			(35,259)		(35,259)
Cash dividends - preferred stock			(1,550)		(1,550)
Dividends of net assets			(4,277)		(4,277)
Other		233			233
	-----	-----	-----	-----	-----
Balance September 30, 2001	60,259	72,792	102,706	-	235,757
Net income			44,095		44,095
Net change in fair value of interest rate protection agreements (net of tax of \$1,968)				(2,774)	(2,774)
			-----	-----	-----
Comprehensive income			44,095	(2,774)	41,321
Cash dividends - common stock			(37,939)		(37,939)
Cash dividends - preferred stock			(1,550)		(1,550)
Other		265			265
	-----	-----	-----	-----	-----
Balance September 30, 2002	60,259	73,057	107,312	(2,774)	237,854
Net income			60,672		60,672
Net change in fair value of interest rate protection agreements (net of tax of \$365)				515	515
Reclassifications of net loss on interest rate protection agreements (net of tax of \$149)				210	210
			-----	-----	-----
Comprehensive income			60,672	725	61,397
Capital contribution by UGI Corporation		5,000			5,000
Cash dividends - common stock			(33,918)		(33,918)
Cash dividends - preferred stock			(1,163)		(1,163)
Dividend of UGID common stock			(15,407)		(15,407)
Other		989			989
	-----	-----	-----	-----	-----
Balance September 30, 2003	\$60,259	\$79,046	\$117,496	\$ (2,049)	\$ 254,752
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION PRINCIPLES

UGI Utilities, Inc. ("UGI Utilities"), a wholly owned subsidiary of UGI Corporation ("UGI"), owns and operates a natural gas distribution utility ("Gas Utility") in parts of eastern and southeastern Pennsylvania; owns and operates an electricity distribution utility ("Electric Utility") in northeastern Pennsylvania; and prior to the June 2003 distribution to UGI of UGI Development Company ("UGID") and UGID's subsidiaries and 50%-owned joint-venture affiliate Hunlock Creek Energy Ventures ("Energy Ventures"), owned interests in Pennsylvania-based electricity generation assets through UGID. We refer to Gas Utility, Electric Utility and UGID (prior to its distribution to UGI) collectively as "the Company" or "we," and Electric Utility and UGID collectively as "Electric Operations." Our consolidated financial statements include the accounts of UGI Utilities and its majority-owned subsidiaries. We eliminate all significant intercompany accounts and transactions when we consolidate. Our investment in Energy Ventures was accounted for under the equity method. Gas Utility and Electric Utility (collectively, "Utilities") are subject to regulation by the Pennsylvania Public Utility Commission ("PUC"). UGID was granted "Exempt Wholesale Generator" status by the Federal Energy Regulatory Commission.

In June 2003, the Company dividended all of the common stock of UGID and its subsidiaries to UGI. The net book value of the assets and liabilities of UGID and its subsidiaries totaling \$15,407 (including \$2,572 of cash) was eliminated from the consolidated balance sheet and reflected as a dividend from retained earnings. UGID and its subsidiaries' results of operations did not have a material effect on the Company's results of operations in 2003, 2002 and 2001.

RECLASSIFICATIONS

We have reclassified certain prior-year balances to conform to the current-year presentation.

USE OF ESTIMATES

We make estimates and assumptions when preparing financial statements in conformity with accounting principles generally accepted in the United States. These estimates and assumptions affect the reported amounts of assets and liabilities, revenues and expenses, as well as the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

REGULATED UTILITY OPERATIONS

We account for the operations of Gas Utility and Electric Utility in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). SFAS 71 requires us to record the effects of rate regulation in the financial statements. Certain expenses and credits subject to utility regulation and normally reflected in income as incurred are deferred on the balance sheet and recognized in income as the related amounts are included in rates and recovered from or refunded to customers. As required

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

by SFAS 71, we monitor our regulatory and competitive environments to determine whether the recovery of our regulatory assets continues to be probable. If we were to determine that recovery of these regulatory assets is no longer probable, such assets would be written off against earnings.

On June 29, 2000, the PUC issued its order ("Gas Restructuring Order") approving Gas Utility's restructuring plan filed by Gas Utility pursuant to Pennsylvania's Natural Gas Choice and Competition Act ("Gas Competition Act"). Based upon the provisions of the Gas Restructuring Order and the Gas Competition Act, we believe Gas Utility's regulatory assets continue to satisfy the criteria of SFAS 71. For further information on the impact of the Gas Competition Act and Pennsylvania's Electricity Customer Choice Act ("Electricity Choice Act"), see Note 2.

CONSOLIDATED STATEMENTS OF CASH FLOWS

We define cash equivalents as all highly liquid investments with maturities of three months or less when purchased. We record cash equivalents at cost plus accrued interest, which approximates market value.

We paid interest totaling \$16,046 in 2003, \$16,348 in 2002 and \$17,543 in 2001. We paid income taxes totaling \$29,372 in 2003, \$36,282 in 2002 and \$29,000 in 2001.

REVENUE RECOGNITION

Gas Utility and Electric Utility record regulated revenues for service provided to the end of each month which includes an accrual for certain unbilled amounts based upon estimated usage. We reflect the impact of Gas Utility and Electric Utility rate increases or decreases at the time they become effective. Nonregulated revenues are recognized as services are performed or products are delivered.

INVENTORIES

Our inventories are stated at the lower of cost or market. We determine cost principally on an average cost method except for appliances for which we use the specific identification method.

INCOME TAXES

Gas Utility and Electric Utility record deferred income taxes in the Consolidated Statements of Income resulting from the use of accelerated depreciation methods based upon amounts recognized for ratemaking purposes. They also record a deferred tax liability for tax benefits that are flowed through to ratepayers when temporary differences originate and record a regulatory income tax asset for the probable increase in future revenues that will result when the temporary differences reverse.

We are amortizing deferred investment tax credits related to Utilities' plant additions over the service lives of the related property. Utilities reduces its deferred income tax liability for the future tax benefits that will occur when the deferred investment tax credits, which are not taxable, are

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

amortized. We also reduce the regulatory income tax asset for the probable reduction in future revenues that will result when such deferred investment tax credits amortize.

We join with UGI and its subsidiaries in filing a consolidated federal income tax return. We are charged or credited for our share of current taxes resulting from the effects of our transactions in the UGI consolidated federal income tax return including giving effect to intercompany transactions. The result of this allocation is generally consistent with income taxes calculated on a separate return basis.

PROPERTY, PLANT AND EQUIPMENT AND RELATED DEPRECIATION

We record property, plant and equipment at cost. When Gas Utility and Electric Utility retire depreciable utility plant and equipment, we charge the original cost, net of removal costs and salvage value, to accumulated depreciation for financial accounting purposes.

We record depreciation expense for Utilities' plant and equipment on a straight-line method over the estimated average remaining lives of the various classes of its depreciable property. Depreciation expense as a percentage of the related average depreciable base for Gas Utility was 2.3% in 2003, 2.5% in 2002 and 2.6% in 2001. Depreciation expense as a percentage of the related average depreciable base for Electric Utility was 3.0% in each of 2003 and 2002 and 3.3% in 2001. The declines in the Gas Utility and Electric Utility percentages for 2003 and 2002 are the result of changes, effective April 1, 2002, in the estimated remaining useful lives of Gas Utility's and Electric Utility's distribution assets. Depreciation expense was \$20,754 in 2003, \$21,649 in 2002 and \$22,701 in 2001.

We evaluate the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We evaluate recoverability based upon undiscounted future cash flows expected to be generated by such assets.

COMPUTER SOFTWARE COSTS

We include in property, plant and equipment costs associated with computer software we develop or obtain for use in our businesses. We amortize computer software costs on a straight-line basis over expected periods of benefit not exceeding ten years once the installed software is ready for its intended use.

DEFERRED FUEL COSTS

Gas Utility's tariffs contain clauses which permit recovery of certain purchased gas costs through the application of purchased gas cost ("PGC") rates. The clauses provide for periodic adjustments to PGC rates for the difference between the total amount of purchased gas costs collected from customers and the recoverable costs incurred. In accordance with SFAS 71, we defer the difference between amounts recognized in revenues and the applicable gas costs incurred until they are subsequently billed or refunded to customers.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

PREFERRED SHARES SUBJECT TO MANDATORY REDEMPTION

Beginning July 1, 2003, the Company accounts for its preferred shares subject to mandatory redemption in accordance with SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes guidelines on how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 results in the Company presenting its preferred shares subject to mandatory redemption in the liabilities section of the balance sheet, and reflecting dividends paid on these shares as a component of interest expense, for periods presented after June 30, 2003. Because SFAS 150 specifically prohibits the restatement of financial statements prior to its adoption, prior period amounts have not been reclassified.

ENVIRONMENTAL LIABILITIES

We accrue environmental investigation and cleanup costs when it is probable that a liability exists and the amount or range of amounts can be reasonably estimated. Our estimated liability for environmental contamination is reduced to reflect anticipated participation of other responsible parties but is not reduced for possible recovery from insurance carriers. In those instances for which the amount and timing of cash payments associated with environmental investigation and cleanup are reliably determinable, we discount such liabilities to reflect the time value of money. We intend to pursue recovery of any incurred costs through all appropriate means, including regulatory relief. Gas Utility is permitted to amortize as removal costs site-specific environmental investigation and remediation costs, net of related third-party payments, associated with Pennsylvania sites. Gas Utility is currently permitted to include in rates, through future base rate proceedings, a five-year average of such prudently incurred removal costs. At September 30, 2003, the Company's liability for environmental investigation and cleanup costs was not material.

DERIVATIVE INSTRUMENTS

Effective October 1, 2000, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivative instruments be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value depends upon the purpose of the derivative instrument and whether it is designated and qualifies for hedge accounting.

During 2003 and 2002, in order to manage interest rate risk associated with forecasted issuances of fixed-rate long-term debt, we entered into interest rate protection agreements ("IRPAs") which have been designated and qualify as cash flow hedges in accordance with SFAS 133. Included in accumulated other comprehensive loss at September 30, 2003 and 2002 are net after-tax losses of \$2,049 and \$2,774, respectively, associated with settled and unsettled IRPAs. The amount of the net loss at September 30, 2003 expected to be reclassified into net income during the next twelve months is not material. The fair values of our unsettled IRPAs were a gain of \$369 at September 30, 2003 and a loss of \$1,205 at September 30, 2002. These amounts are included in other assets and other current liabilities, respectively, on the Consolidated Balance Sheets. The unsettled IRPA at September 30, 2003 hedges interest rate risk associated with forecasted issuances of debt to occur during Fiscal 2005.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

During 2003 and 2002, Gas Utility entered into natural gas call option contracts to reduce volatility in the cost of gas it purchases for its firm- residential, commercial and industrial ("retail core-market") customers. Because net gains or losses associated with these contracts will be included in our PGC recovery mechanism, as these contracts are recorded at fair value in accordance with SFAS 133, any gains or losses are deferred for future recovery from or refund to Gas Utility's ratepayers.

During 2001, we used a managed program of natural gas and oil futures contracts to preserve gross margin associated with certain of our natural gas customers. These contracts were designated as cash flow hedges. During 2001, the amount of cash flow hedge gains associated with these contracts that were reclassified to earnings because it became probable that the original forecasted transactions would not occur was \$1,034 which amount is included in other income.

During 2003, 2002 and 2001, there were no gains or losses recognized in earnings as a result of hedge ineffectiveness or from excluding a portion of a derivative instrument's gain or loss from the assessment of hedge effectiveness, and there were no gains or losses recognized in earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

We are a party to a number of contracts that have elements of a derivative instrument. These contracts include, among others, binding purchase orders, contracts which provide for the purchase and delivery of natural gas and electricity, and service contracts that require the counterparty to provide commodity storage, transportation or capacity service to meet our normal sales commitments. Although many of these contracts have the requisite elements of a derivative instrument, these contracts are not subject to the accounting requirements of SFAS 133, as amended, because they provide for the delivery of products or services in quantities that are expected to be used in the normal course of operating our business or the value of the contract is directly associated with the price or value of a service.

COMPREHENSIVE INCOME

Comprehensive income comprises net income and other comprehensive income (loss). Other comprehensive income (loss) of \$725 and \$(2,774) for the years ended September 30, 2003 and 2002, respectively, is the result of gains or losses on IRPAs qualifying as cash flow hedges, net of reclassifications to net income. The Company's comprehensive income was the same as net income for the year ended September 30, 2001.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. SFAS 149 (i) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, (ii) clarifies when a derivative contains a financing component, (iii) amends the definition of an underlying- rate, price or index to conform it to language used in FASB Interpretation No. 45,

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," and (iv) amends certain other existing pronouncements. SFAS 149 did not change the methods the Company uses to account for and report its derivatives and hedging activities.

In January 2003, the FASB issued Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which clarifies Accounting Research Bulletin No. 51, "Consolidated Financial Statements." FIN 46 is effective immediately for variable interest entities created or obtained after January 31, 2003. For variable interests created or acquired before February 1, 2003, FIN 46 is effective for the first fiscal or interim period beginning after December 15, 2003. If certain conditions are met, FIN 46 requires the primary beneficiary to consolidate certain variable interest entities in which the other equity investors lack the essential characteristics of a controlling financial interest or their investment at risk is not sufficient to permit the variable interest entity to finance its activities without additional subordinated financial support from other parties. The adoption of FIN 46 is not expected to impact the Company's financial position or results of operations.

2. UTILITY REGULATORY MATTERS

Gas Utility

Gas Restructuring Order. On June 29, 2000, the PUC issued the Gas Restructuring Order approving Gas Utility's restructuring plan filed by Gas Utility pursuant to the Gas Competition Act. The purpose of the Gas Competition Act, which was signed into law on June 22, 1999, is to provide all natural gas consumers in Pennsylvania with the ability to purchase their gas supplies from the supplier of their choice. Under the Gas Competition Act, local gas distribution companies ("LDCs") like Gas Utility may continue to sell gas to customers, and such sales of gas, as well as distribution services provided by LDCs, continue to be subject to price regulation by the PUC. LDCs serve as the supplier of last resort for all residential and small commercial and industrial customers.

Among other things, the implementation of the Gas Restructuring Order resulted in an increase in Gas Utility's retail core-market base rates effective October 1, 2000. This base rate increase was designed to generate approximately \$16,700 in additional net annual revenues. In accordance with the Gas Restructuring Order, Gas Utility reduced its retail core-market PGC rates by an annualized amount of \$16,700 in the first 14 months following the October 1, 2000 base rate increase.

Effective December 1, 2001, Gas Utility was required to reduce its retail core-market PGC rates by amounts equal to the margin it receives from interruptible customers using pipeline capacity contracted by Gas Utility for retail core-market customers. As a result, Gas Utility operating results are more sensitive to the effects of heating-season weather and less sensitive to the market prices of alternative fuels.

Transfer of Assets. On May 24, 2001, the PUC approved Gas Utility's application for approval to transfer its liquefied natural gas ("LNG") and propane air ("LP") facilities, along with related assets, to an unregulated affiliate, Energy Services, Inc. ("Energy Services"), a second-tier wholly

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

owned subsidiary of UGI. Gas Utility transferred the LNG and LP assets, which had a net book value of \$4,277, on September 30, 2001. The transfer is reflected as a dividend of net assets in the 2001 Consolidated Statement of Stockholder's Equity. The associated reduction in Gas Utility's base rates, adjusted for the impact of the transfer on net operating expenses, did not have a material effect on our results of operations.

Electric Utility

Electric Utility Restructuring Order. On June 19, 1998, the PUC entered its Opinion and Order ("Electricity Restructuring Order") in Electric Utility's restructuring proceeding pursuant to the Electricity Choice Act. Under the terms of the Electricity Restructuring Order, Electric Utility was authorized to recover \$32,500 in stranded costs over a four-year period beginning January 1, 1999 through a Competitive Transition Charge ("CTC") together with carrying charges on unrecovered balances of 7.94% and to charge unbundled rates for generation, transmission and distribution services. Stranded costs are electric generation-related costs that traditionally would be recoverable in a regulated environment but may not be recoverable in a competitive electric generation market. Under the terms of the Electricity Restructuring Order and in accordance with the Electricity Choice Act, Electric Utility generally could not increase the generation component of prices during the period that stranded costs were being recovered through the CTC. Since January 1, 1999, all of Electric Utility's customers have been permitted to choose an alternative generation supplier.

The PUC approved a settlement establishing rules for Electric Utility Provider of Last Resort ("POLR") service on March 28, 2002, and a separate settlement that modified these rules on June 13, 2002 (collectively, the "POLR Settlement") under which Electric Utility terminated stranded cost recovery through its CTC from commercial and industrial ("C&I") customers on July 31, 2002, and from residential customers on October 31, 2002, and is no longer subject to the statutory generation rate caps as of August 1, 2002 for C&I customers and as of November 1, 2002 for residential customers. Charges for generation service (1) were initially set at a level equal to the rates paid by Electric Utility customers for POLR service under the statutory rate caps; (2) may be raised at certain designated times by up to 5% of the total rate for distribution, transmission and generation through December 2004; and (3) may be set at market rates thereafter. Electric Utility may also offer multiple-year POLR contracts to its customers. The POLR Settlement provides for annual shopping periods during which customers may elect to remain on POLR service or choose an alternate supplier. Customers who do not select an alternate supplier will be obligated to remain on POLR service until the next shopping period. Residential customers who return to POLR service at a time other than during the annual shopping period must remain on POLR service until the date of the second open shopping period after returning. C&I customers who return to POLR service at a time other than during the annual shopping period must remain on POLR service until the next open shopping period, and may, in certain circumstances, be subject to generation rate surcharges. Consistent with the terms of the POLR Settlement, Electric Utility's POLR rates for commercial and industrial customers will increase beginning January 2004, and for residential customers beginning June 2004. Also, Electric Utility has offered and entered into multiple-year POLR contracts with certain of its customers. Additionally, pursuant to the requirements of the Electricity Choice Act, the PUC is currently developing post-rate cap POLR regulations that are expected to further define post-rate cap POLR service obligations and pricing. As of September 30, 2003, less than

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1% of Electric Utility's customers have chosen an alternative electricity generation supplier.

Formation of Hunlock Creek Energy Ventures. On December 8, 2000, UGID contributed its coal-fired Hunlock Creek generating station ("Hunlock") and certain related assets having a net book value of \$4,214, and \$6,000 in cash, to Energy Ventures, a general partnership jointly owned by a subsidiary of UGID and a subsidiary of Allegheny Energy, Inc. ("Allegheny"). The contribution was recorded at its carrying value and no gain was recognized by the Company. Also on December 8, 2000, Allegheny contributed a newly constructed, gas-fired combustion turbine generator to Energy Ventures to be operated at the Hunlock site. Under the terms of our arrangement with Allegheny, each partner is entitled to purchase 50% of the output of the joint venture at cost. Total purchases from Energy Ventures in 2003 (prior to its June 2003 distribution to UGI), 2002 and 2001 were \$6,360, \$9,751 and \$7,966, respectively.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities are included in our accompanying balance sheets at September 30:

	2003	2002
<hr/>		
Regulatory assets:		
Income taxes recoverable	\$57,625	\$54,727
Other postretirement benefits	2,162	2,397
Deferred fuel costs	-	4,304
Other	466	561
<hr/>		
Total regulatory assets	\$60,253	\$61,989
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Regulatory liabilities:		
Other postretirement benefits	\$ 3,746	\$ 4,332
Deferred fuel costs	14,734	-
<hr/>		
Total regulatory liabilities	\$18,480	\$ 4,332
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The Company's regulatory liabilities relating to other postretirement benefits are included in "other noncurrent liabilities" on the Consolidated Balance Sheets. The Company does not recover a rate of return on its regulatory assets.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. DEBT

Long-term debt comprises the following at September 30:

	2003	2002

Medium-Term Notes:		
7.25% Notes, due November 2017	\$ 20,000	\$ 20,000
7.17% Notes, due June 2007	20,000	20,000
7.37% Notes, due October 2015	22,000	22,000
6.73% Notes, due October 2002	-	26,000
6.62% Notes, due May 2005	20,000	20,000
7.14% Notes, due December 2005 (including unamortized premium of \$271 and \$392, respectively, effective rate - 6.64%)	30,271	30,392
7.14% Notes, due December 2005	20,000	20,000
5.53% Notes due September 2012	40,000	40,000
5.37% Notes due August 2013	25,000	-
6.50% Notes due August 2033	20,000	-
6.50% Senior Notes, due August 2003 (less unamortized discount of \$23)	-	49,977

Total long-term debt	217,271	248,369
Less current maturities	-	(76,000)

Long-term debt due after one year	\$ 217,271	\$ 172,369

Scheduled principal repayments of long-term debt for each of the next five fiscal years ending September 30 are as follows: 2004 - \$0; 2005 - \$20,000; 2006 - \$50,000; 2007 - \$20,000; 2008 - \$0.

At September 30, 2003, UGI Utilities had revolving credit agreements with five banks providing for borrowings of up to \$107,000. These agreements are currently scheduled to expire in June 2005 and 2006. UGI Utilities may borrow at various prevailing interest rates, including LIBOR and the banks' prime rate. UGI Utilities pays quarterly commitment fees on these credit lines. UGI Utilities had revolving credit agreement borrowings totaling \$40,700 at September 30, 2003 and \$37,200 at September 30, 2002 which we classify as bank loans. The weighted-average interest rates on bank loans were 1.63% at September 30, 2003 and 2.35% at September 30, 2002.

UGI Utilities' credit agreements have restrictions on such items as total debt, debt service, and payments for investments. They also require consolidated tangible net worth of at least \$125,000. At September 30, 2003, UGI Utilities was in compliance with these financial covenants.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INCOME TAXES

The provisions for income taxes consist of the following:

	2003	2002	2001

Current expense:			
Federal	\$ 27,027	\$ 13,341	\$ 25,344
State	10,416	5,115	8,103

Total current expense	37,443	18,456	33,447
Deferred expense (benefit)	2,495	11,512	(1,618)
Investment tax credit amortization	(398)	(398)	(398)

Total income tax expense	\$ 39,540	\$ 29,570	\$ 31,431

A reconciliation from the statutory federal tax rate to our effective tax rate is as follows:

	2003	2002	2001

Statutory federal tax rate	35.0%	35.0%	35.0%
Difference in tax rate due to:			
State income taxes, net of federal benefit	5.6	6.3	6.5
Deferred investment tax credit amortization	(0.4)	(0.5)	(0.5)
Other, net	(0.7)	(0.7)	(1.5)

Effective tax rate	39.5%	40.1%	39.5%

Deferred tax liabilities (assets) comprise the following at September 30:

	2003	2002

Excess book basis over tax basis of property, plant and equipment	\$ 117,891	\$ 107,627
Regulatory assets	25,001	25,721
Pension plan asset	11,019	10,546
Other	2,170	164

Gross deferred tax liabilities	156,081	144,058

Deferred investment tax credits	(3,314)	(3,479)
Employee-related expenses	(7,072)	(6,371)
Regulatory liabilities	(7,667)	(1,797)
Accumulated other comprehensive loss	(1,454)	(1,968)
Other	(2,773)	(1,570)

Gross deferred tax assets	(22,280)	(15,185)

Net deferred tax liabilities	\$ 133,801	\$ 128,873

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

UGI Utilities had recorded deferred tax liabilities of approximately \$37,029 as of September 30, 2003 and \$35,498 as of September 30, 2002 pertaining to utility temporary differences, principally a result of accelerated tax depreciation for state income tax purposes, the tax benefits of which previously were or will be flowed through to ratepayers. These deferred tax liabilities have been reduced by deferred tax assets of \$3,314 at September 30, 2003 and \$3,479 at September 30, 2002, pertaining to utility deferred investment tax credits. UGI Utilities had recorded regulatory income tax assets related to these net deferred taxes of \$57,625 at September 30, 2003 and \$54,727 as of September 30, 2002. These regulatory income tax assets represent future revenues expected to be recovered through the ratemaking process. We will recognize this regulatory income tax asset in deferred tax expense as the corresponding temporary differences reverse and additional income taxes are incurred.

5. EMPLOYEE RETIREMENT PLANS

DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

We sponsor a defined benefit pension plan ("UGI Utilities Pension Plan") for employees of UGI, UGI Utilities, and certain of UGI's other wholly owned subsidiaries. In addition, we provide postretirement health care benefits to certain of our retirees and a limited number of active employees meeting certain age and service requirements, and postretirement life insurance benefits to nearly all active and retired employees.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following provides a reconciliation of projected benefit obligations, plan assets, and funded status of the plans as of September 30:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
CHANGE IN BENEFIT OBLIGATIONS:				
Benefit obligations - beginning of year	\$ 190,873	\$ 165,154	\$ 23,397	\$ 18,179
Service cost	4,544	3,582	117	90
Interest cost	12,976	12,480	1,518	1,474
Actuarial loss	10,472	18,589	863	5,051
Plan amendments	-	395	-	-
Benefits paid	(9,406)	(9,327)	(1,328)	(1,397)
Benefit obligations - end of year	\$ 209,459	\$ 190,873	\$ 24,567	\$ 23,397
CHANGE IN PLAN ASSETS:				
Fair value of plan assets - beginning of year	\$ 166,064	\$ 183,736	\$ 7,846	\$ 6,994
Actual return on plan assets	27,182	(8,345)	172	144
Employer contributions	-	-	2,310	2,105
Benefits paid	(9,406)	(9,327)	(1,328)	(1,397)
Fair value of plan assets - end of year	\$ 183,840	\$ 166,064	\$ 9,000	\$ 7,846
Funded status of the plans	\$ (25,619)	\$ (24,809)	\$ (15,567)	\$ (15,551)
Unrecognized net actuarial loss	51,205	50,190	6,870	5,945
Unrecognized prior service cost	2,345	3,038	-	-
Unrecognized net transition (asset) obligation	(1,374)	(3,004)	6,375	7,059
Prepaid (accrued) benefit cost - end of year	\$ 26,557	\$ 25,415	\$ (2,322)	\$ (2,547)
ASSUMPTIONS AS OF SEPTEMBER 30:				
Discount rate	6.2%	6.8%	6.2%	6.8%
Expected return on plan assets	9.0%	9.5%	6.0%	6.0%
Rate of increase in salary levels	4.0%	4.5%	4.0%	4.5%

Net pension income is determined using assumptions as of the beginning of each year. Funded status is determined using assumptions as of the end of each year.

Included in the end of year pension benefit obligations above are \$15,528 at September 30, 2003 and \$13,955 at September 30, 2002 relating to employees of UGI and certain of its other subsidiaries. Included in the end of year postretirement obligations above are \$658 at September 30, 2003 and \$649 at September 30, 2002 relating to employees of UGI and certain of its other subsidiaries.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Net periodic pension and other postretirement benefit costs relating to UGI Utilities employees include the following components:

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	2003	2002	2001
Service cost	\$ 4,051	\$ 3,193	\$ 2,785	\$ 109	\$ 84	\$ 82
Interest cost	12,004	11,600	11,319	1,497	1,453	1,326
Expected return on assets	(16,646)	(17,778)	(17,766)	(414)	(366)	(366)
Amortization of:						
Transition (asset) obligation	(1,510)	(1,518)	(1,530)	680	680	679
Prior service cost	643	646	625	-	-	-
Actuarial (gain) loss	216	-	(1,104)	203	20	-
Net benefit cost (income)	(1,242)	(3,857)	(5,671)	2,075	1,871	1,721
Change in regulatory assets and liabilities	-	-	-	1,024	1,228	1,378
Net expense (income)	\$ (1,242)	\$ (3,857)	\$ (5,671)	\$ 3,099	\$ 3,099	\$ 3,099

UGI Utilities Pension Plan assets are held in trust and consist principally of equity and fixed income mutual funds and a commingled bond fund. UGI Common Stock comprised approximately 7% of trust assets at September 30, 2003. Although the UGI Utilities Pension Plan projected benefit obligations exceeded plan assets at September 30, 2003 and 2002, plan assets exceeded accumulated benefit obligations by \$7,346 and \$7,154, respectively.

Pursuant to orders issued by the PUC, UGI Utilities has established a Voluntary Employees' Beneficiary Association ("VEBA") trust to pay retiree health care and life insurance benefits and to fund the UGI Utilities' postretirement benefit liability. UGI Utilities is required to fund its postretirement benefit obligations by depositing into the VEBA the annual amount of postretirement benefits costs determined under SFAS No. 106, "Employers Accounting for Postretirement Benefits Other than Pensions." The difference between such amounts and amounts included in UGI Utilities' rates is deferred for future recovery from, or refund to, ratepayers. VEBA investments consist principally of equity and fixed income mutual funds.

The assumed health care cost trend rates are 11.0% for fiscal 2004, decreasing to 5.5% in fiscal 2010. A one percentage point change in the assumed health care cost trend rate would change the 2003 postretirement benefit cost and obligation as follows:

	1% Increase	1% Decrease
Effect on total service and interest costs	\$ 91	\$ (80)
Effect on postretirement benefit obligation	1,460	(1,286)

We also sponsor unfunded retirement benefit plans for certain key employees. At September 30, 2003 and 2002, the projected benefit obligations of these plans were \$3,469 and \$2,816, respectively. We recorded expense for these plans of \$353 in 2003, \$269 in 2002 and \$235 in 2001.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DEFINED CONTRIBUTION PLANS

We sponsor a 401(k) savings plan for eligible employees ("Utilities Savings Plan"). Generally, participants in the Utilities Savings Plan may contribute a portion of their compensation on a before-tax and after-tax basis. We may, at our discretion, match a portion of participants' contributions. The cost of benefits under the savings plans totaled \$968 in 2003, \$932 in 2002 and \$936 in 2001.

6. INVENTORIES

Inventories comprise the following at September 30:

	2003	2002
Utility fuel and gases	\$51,505	\$36,208
Appliances for sale	548	480
Materials, supplies and other	1,964	1,966
Total inventories	\$54,017	\$38,654

7. SERIES PREFERRED STOCK

The Series Preferred Stock, including both series subject to and series not subject to mandatory redemption, has 2,000,000 shares authorized for issuance. The holders of shares of Series Preferred Stock have the right to elect a majority of the Board of Directors (without cumulative voting) if dividend payments on any series are in arrears in an amount equal to four quarterly dividends. This election right continues until the arrearage has been cured. We have paid cash dividends at the specified annual rates on all outstanding Series Preferred Stock.

At September 30, 2003 and 2002, we had outstanding 200,000 shares of \$7.75 Series cumulative preferred stock. We are required to establish a sinking fund to redeem on October 1 in each year, commencing October 1, 2004, 10,000 shares of our \$7.75 Series at a price of \$100 per share. The \$7.75 Series is redeemable, in whole or in part, at our option on or after October 1, 2004, at a price of \$100 per share. All outstanding shares of \$7.75 Series are subject to mandatory redemption on October 1, 2009, at a price of \$100 per share.

8. COMMITMENTS AND CONTINGENCIES

We lease various buildings and transportation, computer and office equipment and other facilities under operating leases. Certain of our leases contain renewal and purchase options and also contain escalation clauses. Our aggregate rental expense for such leases was \$4,303 in 2003, \$4,690 in 2002 and \$4,624 in 2001.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Minimum future payments under operating leases that have initial or remaining noncancelable terms in excess of one year for the fiscal years ending September 30 are as follows: 2004 - \$2,890; 2005 - \$2,420; 2006 - \$2,115; 2007 - \$1,754; 2008 - \$1,024; after 2008 - \$3,203.

Gas Utility has gas supply agreements with producers and marketers with terms not exceeding one year. Gas Utility also has agreements for firm pipeline transportation and storage capacity which Gas Utility may terminate at various dates through 2016. Gas Utility's costs associated with transportation and storage capacity agreements are included in its annual PGC filing with the PUC and are recoverable through PGC rates. In addition, Gas Utility has short-term gas supply agreements which permit it to purchase certain of its gas supply needs on a firm or interruptible basis at spot-market prices.

Electric Utility purchases its capacity requirements and electric energy needs under contracts with various suppliers and on the spot market. Contracts with producers for capacity and energy needs expire at various dates through 2008.

Future contractual cash obligations under Gas Utility and Electric Utility supply, storage and service agreements existing at September 30, 2003 are as follows: 2004 - \$157,050; 2005 - \$87,850; 2006 - \$48,156; 2007 - \$25,074; 2008 - \$14,714; after 2008 - \$73,997.

From the late 1800s through the mid-1900s, UGI Utilities and its former subsidiaries owned and operated a number of manufactured gas plants ("MGPs") prior to the general availability of natural gas. Some constituents of coal tars and other residues of the manufactured gas process are today considered hazardous substances under the Superfund Law and may be present on the sites of former MGPs. Between 1882 and 1953, UGI Utilities owned the stock of subsidiary gas companies in Pennsylvania and elsewhere and also operated the businesses of some gas companies under agreement. Pursuant to the requirements of the Public Utility Holding Company Act of 1935, UGI Utilities divested all of its utility operations other than those which now constitute Gas Utility and Electric Utility.

UGI Utilities does not expect its costs for investigation and remediation of hazardous substances at Pennsylvania MGP sites to be material to its results of operations because Gas Utility is currently permitted to include in rates, through future base rate proceedings, prudently incurred remediation costs associated with such sites. UGI Utilities has been notified of several sites outside Pennsylvania on which (1) MGPs were formerly operated by it or owned or operated by its former subsidiaries and (2) either environmental agencies or private parties are investigating the extent of environmental contamination or performing environmental remediation. UGI Utilities is currently litigating three claims against it relating to out-of-state sites.

Management believes that under applicable law UGI Utilities should not be liable in those instances in which a former subsidiary owned or operated an MGP. There could be, however, significant future costs of an uncertain amount associated with environmental damage caused by MGPs outside Pennsylvania that UGI Utilities directly operated, or that were owned or operated by former subsidiaries of UGI Utilities, if a court were to conclude that (1) the subsidiary's separate corporate form should be disregarded or (2) UGI Utilities should be considered to have been an operator because of its conduct with respect to its subsidiary's MGP.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

With respect to a manufactured gas plant site in Manchester, New Hampshire, EnergyNorth Natural Gas, Inc. ("EnergyNorth") filed suit against UGI Utilities seeking contribution from UGI Utilities for response and remediation costs associated with the contamination on the site of a former MGP allegedly operated by former subsidiaries of UGI Utilities. UGI Utilities and EnergyNorth agreed to a settlement of this matter in June 2003. UGI Utilities recorded its estimated liability for contingent payments to EnergyNorth under the terms of the settlement agreement.

In April 2003, Citizens Communications Company ("Citizens") served a complaint naming UGI Utilities as a third-party defendant in a civil action pending in United States District Court for the District of Maine. In that action, the plaintiff, City of Bangor, Maine ("City") sued Citizens to recover environmental response costs associated with MGP wastes generated at a plant allegedly operated by Citizens' predecessors at a site on the Penobscot River. Citizens subsequently joined UGI Utilities and ten other third-party defendants alleging that the third party defendants are responsible for an equitable share of costs Citizens may be required to pay to the City for cleaning up tar deposits in the Penobscot River. The City believes that it could cost as much as \$50,000 to clean up the river. UGI Utilities believes that it has good defenses to the claim.

By letter dated July 29, 2003, Atlanta Gas Light Company ("AGL") served UGI Utilities with a complaint filed in the United States District Court for the Middle District of Florida in which AGL alleges that UGI Utilities is responsible for 20% of approximately \$8,000 incurred by AGL in the investigation and remediation of a former MGP site in St. Augustine, Florida. UGI Utilities formerly owned stock of the St. Augustine Gas Company, the owner and operator of the MGP. UGI Utilities believes that it has good defenses to the claim and is defending the suit.

On September 20, 2001, Consolidated Edison Company of New York ("ConEd") filed suit against UGI Utilities in the United States District Court for the Southern District of New York, seeking contribution from UGI Utilities for an allocated share of response costs associated with investigating and assessing gas plant related contamination at former MGP sites in Westchester County, New York. The complaint alleges that UGI Utilities "owned and operated" the MGPs prior to 1904. The complaint also seeks a declaration that UGI Utilities is responsible for an allocated percentage of future investigative and remedial costs at the sites. ConEd believes that the cost of remediation for all of the sites could exceed \$70,000. UGI Utilities believes that it has good defenses to the claim and is defending the suit. In November 2003, the court granted UGI Utilities' motion for summary judgment in part, dismissing all claims premised on a disregard of the separate corporate form of UGI Utilities' former subsidiaries and dismissing claims premised on UGI Utilities' operation of three of the MGPs under operating leases with ConEd's predecessors. The court reserved decision on the remaining theory of liability, that UGI Utilities was a direct operator of the remaining MGPs.

In addition to these environmental matters, there are other pending claims and legal actions arising in the normal course of our businesses. We cannot predict with certainty the final results of environmental and other matters. However, it is reasonably possible that some of them could be resolved unfavorably to us. Although we currently believe, after consultation with counsel, that damages or settlements, if any, recovered by the plaintiffs in such claims or actions will not have a material adverse effect on our financial position, damages or settlements could be material to our operating results or cash flows in future periods depending on the nature and timing of future

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

developments with respect to these matters and the amounts of future operating results and cash flows.

9. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments included in current assets and current liabilities (excluding current maturities of long-term debt) approximate their fair values because of their short-term nature. The estimated fair value of our long-term debt is approximately \$233,000 at September 30, 2003 and \$263,000 at September 30, 2002. We estimate the fair value of long-term debt by using current market prices and by discounting future cash flows using rates available for similar type debt. The estimated fair value of our Series Preferred Stock is approximately \$20,900 at September 30, 2003 and \$20,400 at September 30, 2002. We estimated the fair value of our Series Preferred Stock based on the fair value of redeemable preferred stock with similar credit ratings and redemption features.

We have financial instruments such as trade accounts receivable which could expose us to concentrations of credit risk. The credit risk from trade accounts receivable is limited because we have a large customer base which extends across many different markets. At September 30, 2003 and 2002, we had no significant concentrations of credit risk.

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. SEGMENT INFORMATION

We have determined that we have two reportable segments: (1) Gas Utility and (2) Electric Operations. Gas Utility revenues are derived principally from the sale and distribution of natural gas to customers in eastern and southeastern Pennsylvania. Electric Operations derives its revenues principally from the sale and distribution of electricity in two northeastern Pennsylvania counties.

The accounting policies of our reportable segments are the same as those described in Note 1. We evaluate the performance of our Gas Utility and Electric Operations segments principally based upon their income before income taxes.

No single customer represents more than ten percent of our consolidated revenues and there are no significant intersegment transactions. In addition, all of our reportable segments' revenues are derived from sources within the United States, and all of our reportable segments' long-lived assets are located in the United States. Financial information by business segment follows:

	Total	Gas Utility	Electric Operations
<hr/>			
2003			
Revenues	\$ 636,758	\$ 539,862	\$ 96,896
Cost of sales	392,901	342,987	49,914
Depreciation and amortization	21,240	18,147	3,093
Operating income	117,868	96,086	21,782
Interest expense	17,656	15,409	2,247
Income before income taxes	100,212	80,677	19,535
Total assets	809,048	725,085	83,963
Capital expenditures	41,297	37,204	4,093
2002			
Revenues	\$ 490,552	\$ 404,519	\$ 86,033
Cost of sales	290,282	241,669	48,613
Depreciation and amortization	22,172	18,983	3,189
Operating income	90,317	77,148	13,169
Interest expense	16,652	14,224	2,428
Income before income taxes	73,665	62,924	10,741
Total assets	798,123	689,080	109,043
Capital expenditures	35,884	31,034	4,850
2001			
Revenues	\$ 584,762	\$ 500,832	\$ 83,930
Cost of sales	374,781	322,915	51,866
Depreciation and amortization	23,767	20,171	3,596
Operating income	98,556	87,846	10,710
Interest expense	18,988	16,258	2,730
Income before income taxes	79,568	71,588	7,980
Total assets	784,409	678,947	105,462
Capital expenditures	36,783	31,757	5,026

UGI UTILITIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. QUARTERLY DATA (UNAUDITED)

The following quarterly information includes all adjustments (consisting only of normal recurring adjustments), which we consider necessary for a fair presentation of such information. Quarterly results fluctuate because of the seasonal nature of UGI Utilities' businesses.

	December 31, 2002	December 31, 2001	March 31, 2003	March 31, 2002	June 30, 2003	June 30, 2002	September 30, 2003	September 30, 2002
Revenues	\$168,351	\$141,481	\$269,296	\$179,945	\$121,546	\$ 88,249	\$ 77,565	\$ 80,877
Operating income	38,830	27,609	63,449	41,319	10,005	13,222	5,584	8,167
Net income	20,714	14,045	35,399	22,549	3,640	5,552	919	1,949

12. OTHER INCOME, NET

Other income, net, comprises the following:

	2003	2002	2001
Non-tariff service income	\$ 5,693	\$ 5,701	\$ 5,410
Pension income	1,242	3,858	5,671
Interest income	128	1,110	235
Other	1,682	1,054	3,795
	\$ 8,745	\$ 11,723	\$ 15,111

13. RELATED PARTY TRANSACTIONS

UGI provides administrative and general support to UGI Utilities. UGI bills UGI Utilities monthly for an allocated share of its general corporate expenses. This allocation is based upon a three-factor formula which includes revenues, costs and expenses, and net assets. These billed expenses are classified as operating and administrative expenses - related parties in the Consolidated Statements of Income.

In accordance with the terms of an Affiliated Interest Agreement ("Affiliated Agreement") approved by the PUC, Gas Utility enters into wholesale natural gas transactions with Energy Services, Inc. ("Energy Services"), a wholly owned second-tier subsidiary of UGI, for winter storage service and, from time to time, purchases of natural gas. During 2003 and 2002, the aggregate amount of these transactions totaled \$4,709 and \$2,614, respectively. Such amounts were not material in 2001. In addition, from time to time, the Company sells natural gas to Energy Services pursuant to the terms of the Affiliated Agreement. During 2003, 2002 and 2001, revenues associated with these sales to Energy Services totaled \$4,234, \$17,379 and \$10,976, respectively. These transactions did not have a material effect on the Company's net income during 2003, 2002 and 2001.

UGI UTILITIES, INC. AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(Thousands of dollars)

	Balance at beginning of year -----	Charged to costs and expenses -----	Other -----	Balance at end of year -----
YEAR ENDED SEPTEMBER 30, 2003				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 1,972 =====	\$ 7,778	\$ (6,475)(1)	\$ 3,275 =====
Other reserves (3)	\$ 3,363 =====	\$ 3,164	\$ (3,294)(2)	\$ 3,616 =====
			383 (4)	
YEAR ENDED SEPTEMBER 30, 2002				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 3,151 =====	\$ 5,270	\$ (6,449)(1)	\$ 1,972 =====
Other reserves (3)	\$ 3,467 =====	\$ 748	\$ (2,352)(2)	\$ 3,363 =====
			1,500 (4)	
YEAR ENDED SEPTEMBER 30, 2001				
Reserves deducted from assets in the consolidated balance sheet:				
Allowance for doubtful accounts	\$ 2,061 =====	\$ 8,269	\$ (7,179)(1)	\$ 3,151 =====
Other reserves (3)	\$ 1,954 =====	\$ 1,696	\$ (276)(2)	\$ 3,467 =====
			93 (4)	

(1) Uncollectible accounts written off, net of recoveries.

(2) Payments, net

(3) Includes reserves for self-insured property and casualty liability, insured property and casualty liability, environmental, litigation and other.

(4) Other adjustments

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----
3.2	Bylaws as amended through September 30, 2003
10.19	UGI Utilities, Inc. Severance Plan for Exempt Employees in Salary Grades 34-37 and Salary Grades 18-23 effective January 1, 1999
10.21	Change of Control Agreement for Mr. Chaney
10.22	Form of Change of Control Agreement for executive officers other than Messrs. Chaney and Greenberg
12.1	Computation of Ratio of Earnings to Fixed Charges
12.2	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
14	Code of Ethics for principal executive, financial and accounting officers
23	Consent of PricewaterhouseCoopers LLP
31.1	Certification by the Chief Executive Officer relating to the Registrant's Report on Form 10-K for the year ended September 30, 2003 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer relating to the Registrant's Report on Form 10-K for the year ended September 30, 2003 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification by Chief Executive Officer and Chief Financial Officer

BYLAWS
OF
UGI UTILITIES, INC.
(A PENNSYLVANIA REGISTERED CORPORATION)

ARTICLE I

OFFICES AND FISCAL YEAR

SECTION 1.01. REGISTERED OFFICE. The registered office of the corporation in the Commonwealth of Pennsylvania shall be at Valley Forge, Pennsylvania, until otherwise established by an amendment of the articles or by the board of directors and a record of such change is filed with the Department of State in the manner provided by law.

SECTION 1.02. OTHER OFFICES. The corporation may also have offices at such other places within or without Pennsylvania as the board of directors may from time to time appoint or the business of the corporation may require.

SECTION 1.03. FISCAL YEAR. The fiscal year of the corporation shall begin on the first day of October in each year.

ARTICLE II

NOTICE - WAIVERS - MEETINGS GENERALLY

SECTION 2.01. MANNER OF GIVING NOTICE.

(a) General Rule. Whenever written notice is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws, it may be given to the person either personally or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by telecopier, to the address (or to the telex, TWX, telecopier or telephone number) of the person appearing on the books of the corporation or, in the case of directors, supplied by the director to the corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched or, in the case of telecopier, when received. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Business Corporation Law, the articles or these bylaws.

(b) Adjourned Shareholder Meetings. When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board fixes a new record date for the adjourned meeting.

SECTION 2.02. NOTICE OF MEETINGS OF BOARD OF DIRECTORS. Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director by telephone or in writing at least 24 hours (in the case of notice by telephone, facsimile transmission, e-mail, or other electronic communication) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of the meeting.

SECTION 2.03. NOTICE OF MEETINGS OF SHAREHOLDERS. Written notice of every meeting of the shareholders shall be given by, or at the direction of, the secretary to each shareholder of record entitled to vote at the meeting at least (1) ten days prior to the day named for a meeting called to consider amendment of the articles or adoption of a plan of merger, consolidation, exchange, asset transfer, division or conversion or adoption of a proposal of dissolution or (2) five days prior to the day named for the meeting in any other case. If the secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a special meeting of shareholders, the notice shall specify the general nature of the business to be transacted.

SECTION 2.04. WAIVER OF NOTICE.

(a) Written Waiver. Whenever any written notice is required to be given under the provisions of the Business Corporation Law, the articles or these bylaws, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of the notice. Except as otherwise required by this subsection, neither the business to be transacted at, nor the purpose of, a meeting need be specified in the waiver of notice of the meeting. In the case of a special meeting of shareholders, the waiver of notice shall specify the general nature of the business to be transacted.

(b) Waiver by Attendance. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

SECTION 2.05. MODIFICATION OF PROPOSAL CONTAINED IN NOTICE. Whenever the language of a proposed resolution is included in a written notice of a meeting required to be given under the provisions of the Business Corporation Law or the articles or these bylaws, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

SECTION 2.06. EXCEPTION TO REQUIREMENT OF NOTICE.

(a) General Rule. Whenever any notice or communication is required to be given to any person under the provisions of the Business Corporation Law or by the articles or these bylaws or by the terms of any agreement or other instrument or as a condition precedent to taking any corporate action and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required.

(b) Shareholders Without Forwarding Addresses. Notice or other communications shall not be sent to any shareholder with whom the corporation has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the corporation with a current address. Whenever the shareholder provides the corporation with a current address, the corporation shall commence sending notices and other communications to the shareholder in the same manner as to other shareholders.

SECTION 2.07. USE OF CONFERENCE TELEPHONE AND SIMILAR EQUIPMENT. Any director may participate in any meeting of the board of directors, and the board of directors may provide by resolution with respect to a specific meeting or with respect to a class of meetings that one or more persons may participate in a meeting of the shareholders of the corporation, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

ARTICLE III

SHAREHOLDERS

SECTION 3.01. PLACE OF MEETING. All meetings of the shareholders of the corporation shall be held at the registered office of the corporation unless another place is designated by the board of directors in the notice of a meeting.

SECTION 3.02. ANNUAL MEETING. The board of directors may fix and designate the date and time of the annual meeting of the shareholders, but if no such date and time is fixed and designated by the board, the meeting for any calendar year shall be held on the first Tuesday in March in such year, if not a legal holiday under the laws of Pennsylvania, and, if a legal holiday, then on the next succeeding business day, not a Saturday, at 10:00 o'clock A.M., and at said meeting the shareholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting. If the annual meeting shall not have been called and held within six months after the designated time, any shareholder may call the meeting at any time thereafter.

SECTION 3.03. SPECIAL MEETINGS. Special meetings of the shareholders may be called at any time by the chief executive officer or by the board of directors.

At any time, upon written request of any person or persons who have duly called a special meeting, which written request shall state the object of the meeting, it shall be the duty of the secretary to fix the date, time and place of the meeting. The date fixed by the Secretary shall not be less than five nor more than 60 days after the receipt of the request.

SECTION 3.04. QUORUM AND ADJOURNMENT.

(a) General Rule. A meeting of shareholders of the corporation duly called shall not be organized for the transaction of business unless a quorum is present. The presence of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it

and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time.

(b) Withdrawal of a Quorum. The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(c) Adjournments Generally. Any regular or special meeting of the shareholders, including one at which directors are to be elected and one which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as the shareholders present and entitled to vote shall direct.

(d) Electing Directors at Adjourned Meeting. Those shareholders entitled to vote who attend a meeting called for the election of directors that has been previously adjourned for lack of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of electing directors.

(e) Other Action in Absence of Quorum. Those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least 15 days because of an absence of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the notice of the meeting if the notice states that those shareholders who attend the adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter.

SECTION 3.05. ACTION BY SHAREHOLDERS.

(a) General Rule. Except as otherwise provided in the Business Corporation Law or the articles or these bylaws, whenever any corporate action is to be taken by vote of the shareholders of the corporation, it shall be authorized by a majority of the votes cast at a duly organized meeting of shareholders by the holders of shares entitled to vote thereon. Except when acting by unanimous consent to remove a director or directors, the shareholders of the corporation may act only at a duly organized meeting.

(b) Interested Shareholders. Any merger or other transaction authorized under 15 Pa.C.S. Subchapter 19C between the corporation or subsidiary thereof and a shareholder of this corporation, or any voluntary liquidation authorized under 15 Pa.C.S. Subchapter 19F in which a shareholder is treated differently from other shareholders of the same class (other than any dissenting shareholders), shall require the affirmative vote of the shareholders entitled to cast at least a majority of the votes that all shareholders other than the interested shareholder are entitled to cast with respect to the transaction, without counting the vote of the interested shareholder. For the purposes of the preceding sentence, interested shareholder shall include the shareholder who is a party to the transaction or who is treated differently from other shareholders and any person, or group of persons, that is acting jointly or in concert with the interested shareholder and any person who, directly or indirectly, controls, is controlled by or is under common control with the interested shareholder. An interested shareholder shall not include any person who, in good faith and not for the purpose of circumventing this subsection, is an agent, bank, broker, nominee or trustee for one or more other persons, to the extent that the other person or persons are not interested shareholders.

(c) Exceptions. Subsection (b) shall not apply to a transaction:

(1) that has been approved by a majority vote of the board of directors without counting the vote of directors who:

(i) are directors or officers of, or have a material equity interest in, the interested shareholder; or

(ii) were nominated for election as a director by the interested shareholder, and first elected as a director, within 24 months of the date of the vote on the proposed transaction; or

(2) in which the consideration to be received by the shareholders for shares of any class of which shares are owned by the interested shareholder is not less than the highest amount paid by the interested shareholder in acquiring shares of the same class.

(d) Additional Approvals. The approvals required by subsection (b) shall be in addition to, and not in lieu of, any other approval required by the Business Corporation Law, the articles or these bylaws, or otherwise.

SECTION 3.06. ORGANIZATION. At every meeting of the shareholders, the chairman of the board, if there be one, or, in the case of vacancy in office or absence of the chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a person chosen by vote of the shareholders present, shall act as chairman of the meeting. The secretary, or in the absence of the secretary, an assistant secretary, or, in the absence of both the secretary and assistant secretaries, a person appointed by the chairman of the meeting, shall act as secretary of the meeting.

SECTION 3.07. VOTING RIGHTS OF SHAREHOLDERS. Unless otherwise provided in the articles, every shareholder of the corporation shall be entitled to one vote for every share standing in the name of the shareholder on the books of the corporation.

SECTION 3.08. VOTING AND OTHER ACTION BY PROXY.

(a) General Rule.

(1) Every shareholder entitled to vote at a meeting of shareholders may authorize another person to act for the shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of shareholders by a proxy of a shareholder shall constitute the presence of, or vote or action by the shareholder.

(3) Where two or more proxies of a shareholder are present, the corporation shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(b) Minimum Requirements. Every proxy shall be executed in writing by the shareholder or by the duly authorized attorney-in-fact of the shareholder and filed with the secretary of the corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until written notice thereof has been given to the secretary of the corporation. An unrevoked proxy shall not be valid after three years from the date of its execution unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the secretary of the corporation.

(c) Expenses. The corporation shall pay the reasonable expenses of solicitation of votes or proxies of shareholders by or on behalf of the board of directors or its nominees for election to the board including solicitation by professional proxy solicitors and otherwise.

SECTION 3.09. VOTING BY FIDUCIARIES AND PLEDGEES. Shares of the corporation standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose shares are pledged shall be entitled to vote the shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

SECTION 3.10. VOTING BY JOINT HOLDERS OF SHARES.

(a) General Rule. Where shares of the corporation are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons shall be deemed to be represented for the purpose of determining a quorum and the corporation shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) if the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception. If there has been filed with the secretary of the corporation a copy, certified by an attorney at law to be correct, of the relevant portions of the agreement under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons, shall be entitled to vote the shares but only in accordance therewith.

SECTION 3.11. VOTING BY CORPORATIONS.

(a) Voting by Corporate Shareholders. Any corporation that is a shareholder of this corporation may vote at meetings of shareholders of this corporation by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors of the other corporation or a provision of its articles or bylaws, a copy of which

resolution or provision certified to be correct by one of its officers has been filed with the secretary of this corporation, is appointed its general or special proxy in which case that person shall be entitled to vote the shares.

(b) Controlled Shares. Shares of this corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares for voting purposes at any given time.

SECTION 3.12. DETERMINATION OF SHAREHOLDERS OF RECORD.

(a) Fixing Record Date. The board of directors may fix a time prior to the date of any meeting of shareholders as a record date for the determination of the shareholders entitled to notice of, or to vote at, the meeting, which time, except in the case of an adjourned meeting, shall be not more than 60 days prior to the date of the meeting of shareholders. Only shareholders of record on the date fixed shall be so entitled notwithstanding any transfer of shares on the books of the corporation after any record date fixed as provided in this subsection. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. When a determination of shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board fixes a new record date for the adjourned meeting.

(b) Determination When a Record Date is Not Fixed. If a record date is not fixed:

(1) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given.

(2) The record date for determining shareholders for any other purpose shall be at the close of business on the date on which the board of directors adopts the resolution relating thereto.

(c) Certification by Nominee. The board of directors may adopt a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of the shareholder are held for the account of a specified person or persons. Upon receipt by the corporation of a certification complying with the procedure, the persons specified in the certification shall be deemed, for the purposes set forth in the certification, to be the holders of record of the number of shares specified in place of the shareholder making the certification.

SECTION 3.13. VOTING LISTS.

(a) General Rule. The officer or agent having charge of the transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof except that, if the corporation has 5,000 or more shareholders, in lieu of the making of the list the corporation may make the information therein available at the meeting by any other means.

(b) Effect of List. Failure to comply with the requirements of this section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate thereof kept in the Commonwealth of Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine the list or share register or transfer book or to vote at any meeting of shareholders.

SECTION 3.14. JUDGES OF ELECTION.

(a) Appointment. In advance of any meeting of shareholders of the corporation, the board of directors may appoint judges of election, who need not be shareholders, to act at the meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be one or three. A person who is a candidate for an office to be filled at the meeting shall not act as a judge.

(b) Vacancies. In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof.

(c) Duties. The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with nominations by shareholders or the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report. On request of the presiding officer of the meeting or of any shareholder, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

SECTION 3.15. MINORS AS SECURITY HOLDERS. The corporation may treat a minor who holds shares or obligations of the corporation as having capacity to receive and to empower others to receive dividends, interest, principal and other payments or distributions, to vote or express consent or dissent and to make elections and exercise rights relating to such shares or obligations unless, in the case of payments or distributions on shares, the corporate officer responsible for maintaining the list of shareholders or the transfer agent of the corporation or, in the case of payments or distributions on obligations, the treasurer or paying officer or agent has received written notice that the holder is a minor.

ARTICLE IV

BOARD OF DIRECTORS

SECTION 4.01. POWERS; PERSONAL LIABILITY.

(a) General Rule. Unless otherwise provided by statute, all powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

(b) Standard of Care; Justifiable Reliance. A director shall stand in a fiduciary relation to the corporation and shall perform his or her duties as a director, including duties as a member of any committee of the board upon which the director may serve, in good faith, in a manner the director reasonably believes to be in the best interests of the corporation and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his or her duties, a director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

(1) One or more officers or employees of the corporation whom the director reasonably believes to be reliable and competent in the matters presented.

(2) Counsel, public accountants or other persons as to matters which the director reasonably believes to be within the professional or expert competence of such person.

(3) A committee of the board upon which the director does not serve, duly designated in accordance with law, as to matters within its designated authority, which committee the director reasonably believes to merit confidence.

A director shall not be considered to be acting in good faith if the director has knowledge concerning the matter in question that would cause his or her reliance to be unwarranted.

(c) Consideration of Factors. In discharging the duties of their respective positions, the board of directors, committees of the board and individual directors may, in considering the best interests of the corporation, consider the effects of any action upon employees, upon suppliers and customers of the corporation and upon communities in which offices or other establishments of the corporation are located, and all other pertinent factors. The consideration of those factors shall not constitute a violation of subsection (b).

(d) Presumption. Absent breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a director or any failure to take any action shall be presumed to be in the best interests of the corporation.

(e) Personal Liability of Directors. A director of the corporation shall not be personally liable for monetary damages as such for any action taken, or any failure to take any action, unless the director has breached or failed to perform the duties of his or her office under 42 Pa.C.S. Section 8363 and the breach or failure to perform constitutes self-dealing, willful misconduct or

recklessness. The provisions of this subsection shall not apply to the responsibility or liability of a director pursuant to any criminal statute or the liability of a director for the payment of taxes pursuant to local, state or Federal law.

(The provisions of this subsection (e) were first adopted by the shareholders of the corporation on May 12, 1987.)

(f) Notation of Dissent. A director who is present at a meeting of the board of directors, or of a committee of the board, at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless the director files a written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the secretary of the corporation immediately after the adjournment of the meeting. The right to dissent shall not apply to a director who voted in favor of the action. Nothing in this section shall bar a director from asserting that minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the secretary, in writing, of the asserted omission or inaccuracy.

SECTION 4.02. QUALIFICATIONS AND SELECTION OF DIRECTORS.

(a) Qualifications. Each director of the corporation shall be a natural person or full age, provided that no person of age 72 years or more is eligible for election as a director. Directors need not be residents of the Commonwealth of Pennsylvania or shareholders of the corporation.

(b) Election of Directors. Except as otherwise provided in these bylaws, directors of the corporation shall be elected by the shareholders. In elections for directors, voting need not be by ballot, except upon demand made by a shareholder entitled to vote at the election and before the voting begins. In all elections for directors every shareholder entitled to vote shall have the right to multiply the number of votes to which such shareholder may be entitled by the total number of directors to be elected in the same election by the holders of the class of shares of which his or her shares are a part, and may cast the whole number of such votes for one candidate or may distribute them among any two or more candidates. The candidates receiving the highest number of votes from each class or group of classes, if any, entitled to elect directors separately up to the number of directors to be elected by the class or group of classes shall be elected. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

SECTION 4.03. NUMBER AND TERM OF OFFICE.

(a) Number. The board of directors shall consist of such number of directors, not less than five (5) nor more than fifteen (15), as may be determined from time to time by resolution of the board of directors.

(b) Term of Office. Each director shall hold office until the expiration of the term for which he or she was elected and until a successor has been selected and qualified or until his or her earlier death, resignation or removal. A decrease in the number of directors shall not have the effect of shortening the term of any incumbent director.

(c) Resignation. Any director may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as shall be specified in the notice of resignation.

SECTION 4.04. VACANCIES.

(a) General Rule. Vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority vote of the remaining members of the board though less than a quorum, or by a sole remaining director, and each person so selected shall be a director to serve until the next selection of the class for which such director has been chosen, and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Action by Resigned Directors. When one or more directors resign from the board effective at a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

SECTION 4.05. REMOVAL OF DIRECTORS.

(a) Removal by the Shareholders. The entire board of directors, or any class of the board, or any individual director may be removed from office by vote of the shareholders entitled to vote thereon without assigning any cause. In case the board or a class of the board or any one or more directors are so removed, new directors may be elected at the same meeting.

(b) Removal by the Board. The board of directors may declare vacant the office of a director who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year or if, within 60 days after notice of his or her selection, the director does not accept the office either in writing or by attending a meeting of the board of directors.

SECTION 4.06. PLACE OF MEETINGS. Meetings of the board of directors may be held at such place within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or as may be designated in the notice of the meeting.

SECTION 4.07. ORGANIZATION OF MEETINGS. At every meeting of the board of directors, the chairman of the board, if there be one, or, in the case of a vacancy in the office or absence of the chairman of the board, one of the following officers present in the order stated: the vice chairman of the board, if there be one, the president, the vice presidents in their order of rank and seniority, or a person chosen by a majority of the directors present, shall act as chairman of the meeting. The secretary or, in the absence of the secretary, an assistant secretary, or, in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

SECTION 4.08. REGULAR MEETINGS. Regular meetings of the board of directors shall be held at such time and place as shall be designated from time to time by resolution of the board of directors.

SECTION 4.09. SPECIAL MEETINGS. Special meetings of the board of directors shall be held whenever called by the chief executive officer or by two or more of the directors.

SECTION 4.10. QUORUM OF AND ACTION BY DIRECTORS.

(a) General Rule. A majority of the directors in office of the corporation shall be necessary to constitute a quorum for the transaction of business and the acts of a majority of the directors present and voting at a meeting at which a quorum is present shall be the acts of the board of directors.

(b) Action by Written Consent. Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the directors in office is filed with the secretary of the corporation.

SECTION 4.11. EXECUTIVE AND OTHER COMMITTEES.

(a) Establishment and Powers. The board of directors may, by resolution adopted by a majority of the directors in office, establish one or more committees to consist of one or more directors of the corporation. Any committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all of the powers and authority of the board of directors except that a committee shall not have any power or authority as to the following:

(1) The submission to shareholders of any action requiring approval of shareholders under the Business Corporation Law.

(2) The creation or filling of vacancies in the board of directors.

(3) The adoption, amendment or repeal of these bylaws.

(4) The amendment or repeal of any resolution of the board that by its terms is amendable or repealable only by the board.

(5) Action on matters committed by a resolution of the board of directors to another committee of the board.

(b) Alternate Committee Members. The board may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. In the absence or disqualification of a member and alternate member or members of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

(c) Term. Each committee of the board shall serve at the pleasure of the board.

(d) Committee Procedures. The term "board of directors" or "board," when used in any provision of these bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any executive or other committee of the board.

SECTION 4.12. COMPENSATION. The board of directors shall have the authority to fix the compensation of directors for their services as directors and a director may be a salaried officer of the corporation.

ARTICLE V

OFFICERS

SECTION 5.01. OFFICERS GENERALLY.

(a) Number, Qualifications and Designation. The officers of the corporation shall be a president (who may be the chief executive officer), one or more vice presidents, a secretary, a treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03. Officers may but need not be directors or shareholders of the corporation. The president and secretary shall be natural persons of full age. The treasurer may be a corporation, but if a natural person shall be of full age. The board of directors may elect from among the members of the board a chairman of the board (who may be the chief executive officer) and a vice chairman of the board who may be officers of the corporation. Any number of offices may be held by the same person.

(b) Bonding. The corporation may secure the fidelity of any or all of its officers by bond or otherwise.

SECTION 5.02. ELECTION, TERM OF OFFICE AND RESIGNATIONS.

(a) Election and Term of Office. The officers of the corporation (except those elected by delegated authority pursuant to Section 5.03 or filled pursuant to Section 5.05) shall be elected annually by the board of directors, and each such officer shall hold office for a term of one year and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Resignation. Any officer may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as may be specified in the notice of resignation.

SECTION 5.03. SUBORDINATE OFFICERS, COMMITTEES AND AGENTS. The board of directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws, or as the board of directors may from time to time determine. The board of directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

SECTION 5.04. REMOVAL OF OFFICERS AND AGENTS. Any officer or agent of the corporation may be removed by the board of directors with or without cause. The removal shall be without prejudice to the contract rights, if any, or any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

SECTION 5.05. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, may be filled by the board of directors or the board of directors may delegate to any officer or committee the power to fill a vacancy in such office or to create a new such office, subject to ratification by the board of directors, and if the office is one for which these bylaws prescribe a term, shall be filled for the unexpired portion of the term.

SECTION 5.06. AUTHORITY. All officers of the corporation, as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as may be provided by or pursuant to resolutions or orders of the board of directors or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these bylaws.

SECTION 5.07. THE CHAIRMAN AND VICE CHAIRMAN OF THE BOARD. The chairman of the board or in the absence of the chairman, the vice chairman of the board, shall preside at all meetings of the shareholders and of the board of directors, and shall perform such other duties as may from time to time be requested by the board of directors.

SECTION 5.08. THE CHIEF EXECUTIVE OFFICER. The chief executive officer shall be the chief executive officer of the corporation and shall be in addition either the chairman of the board or the president of the corporation. The chief executive officer shall have general supervision over the business of the corporation and, in general, shall have the powers and perform the duties which by law and general usage appertain to the office, subject however, to the control of the board of directors. The chief executive officer shall sign, execute, and acknowledge, in the name of the corporation, deeds, mortgages, bonds, contracts or other instruments, authorized by the board of directors, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors, or by these bylaws, to some other officer or agent of the corporation.

SECTION 5.09. THE PRESIDENT. The president shall perform such duties as from time to time may be assigned by the board of directors or the chief executive officer (unless the president shall be the chief executive officer, in which case the president's duties shall be those specified in Section 5.08).

SECTION 5.10. THE VICE PRESIDENT. The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors or the chief executive officer.

SECTION 5.11. THE SECRETARY. The secretary or an assistant secretary shall attend all meetings of the shareholders and of the board of directors and shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the board of directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors or the chief executive officer.

SECTION 5.12. THE TREASURER. The treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the

corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as shall be designated in accordance with resolutions adopted by the board of directors; shall, whenever so required by the board of directors, render an account showing all transactions as treasurer, and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors or the chief executive officer.

SECTION 5.13. SALARIES. The salaries of the officers elected by the board of directors shall be fixed from time to time by the board of directors or by such officer as may be designated by resolution of the board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that the officer is also a director of the corporation.

ARTICLE VI

CERTIFICATES OF STOCK, TRANSFER, ETC.

SECTION 6.01. SHARE CERTIFICATES.

(a) Form of Certificates. Certificates for shares of the corporation shall be in such form as approved by the board of directors, and shall state that the corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the person to whom issued, and the number and class of shares and the designation of the series (if any) that the certificate represents. If the corporation is authorized to issue shares of more than one class or series certificates for shares of the corporation shall set forth upon the face or back of the certificate (or shall state on the face or back of the certificate that the corporation will furnish to any shareholder upon request and without charge), a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations and special rights of the classes and series of shares of the corporation.

(b) Share Register. The share register or transfer book and blank share certificates shall be kept by the secretary or by any transfer agency or registrar designated by the board of directors for that purpose.

SECTION 6.02. ISSUANCE. The share certificates of the corporation shall be numbered and registered in the share register or transfer books of the corporation as they are issued. They shall be executed in such manner as the board of directors shall determine.

SECTION 6.03. TRANSFER. Transfers of shares shall be made on the share register or transfer books of the corporation upon surrender of the certificate therefor, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made inconsistent with the provisions of the Uniform Commercial Code, 13 Pa.C.S. Sections 8101 et seq., and its amendments and supplements.

SECTION 6.04. RECORD HOLDER OF SHARES. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation

as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

SECTION 6.05. LOST, DESTROYED OR MUTILATED CERTIFICATES. The holder of any shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefor, and the board of directors may, in its discretion, cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate or, in case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and, if the board of directors shall so determine, the deposit of a bond in such form and in such sum, and with such surety or sureties, as it may direct.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS AND OFFICERS

(This Article effective for acts occurring prior to May 12, 1987)

The corporation shall indemnify any director or officer of the corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was an authorized representative of the corporation (which for the purposes of this Article VII shall mean a director, officer, employee or agent of the corporation, or a person who is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

The corporation shall indemnify any director or officer of the corporation who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was an authorized representative of the corporation against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court of common pleas of the county in which the registered office of the corporation is located or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court of common pleas or such other court shall deem proper.

To the extent that an authorized representative of the corporation who neither was nor is a director or officer of the corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in the two preceding paragraphs of this Article or in defense of any claim, issue or matter therein, he shall be indemnified by the corporation against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith. Such an authorized representative may, at the discretion of the corporation, be indemnified by the corporation in any other circumstances to any extent if the corporation would be required by the two preceding paragraphs of this Article to indemnify such person in such circumstances and to such extent as if he were or had been a director or officer of the corporation.

Indemnification under the three preceding paragraphs of this Article shall be made when ordered by court (in which case the expenses, including attorneys' fees, of the authorized representative in enforcing such right of indemnification shall be added to and be included in the final judgment against the corporation) and may be made in a specific case upon a determination that indemnification of the authorized representative is required or proper in the circumstances because he has met the applicable standard of conduct set forth in the first two paragraphs of this Article. Such determination shall be made:

(1) By the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or

(2) If such a quorum is not obtainable, or, even if obtainable a majority vote of a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or

(3) By the stockholders.

Expenses (including attorneys' fees) incurred in defending a civil or criminal action, suit or proceeding shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding, upon receipt of an undertaking by or on behalf of a director or officer to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the corporation as required in this Article or as authorized by law, and may be paid by the corporation in advance on behalf of any other authorized representative when authorized by the Board of Directors upon receipt of a similar undertaking.

Each person who shall act as an authorized representative of the corporation shall be deemed to be doing so in reliance upon such rights of indemnification as are provided in this Article. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any agreement, vote of stockholders or disinterested directors, statute or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office or position, and shall continue as to a person who has ceased to be an authorized representative of the corporation and shall inure to the benefit of the heirs, executors and administrators or of such a person.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. CORPORATE SEAL. The corporation shall have a corporate seal in the form of a circle containing the name of the corporation on the circumference, and the words "Penna.-1882" in the center.

SECTION 8.02. CHECKS. All checks, notes, bills of exchange or other orders in writing shall be signed by such person or persons as shall be designated in accordance with resolutions adopted by the board of directors.

SECTION 8.03. CONTRACTS. Except as otherwise provided in the Business Corporation Law in the case of transactions that require action by the shareholders, the board of directors may authorize any officer or agent to enter into any contract or to execute or deliver any instrument on behalf of the corporation, and such authority may be general or confined to specific instances.

SECTION 8.04. INTERESTED DIRECTORS OR OFFICERS; QUORUM.

(a) General Rule. A contract or transaction between the corporation and one or more of its directors or officers or between the corporation and another corporation, partnership, joint venture, trust or other enterprise in which one or more of its directors or officers are directors or officers or have a financial or other interest, shall not be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the board of directors that authorizes the contract or transaction, or solely because his, her or their votes are counted for that purpose, if:

(1) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors and the board authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors even though the disinterested directors are less than a quorum;

(2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of those shareholders; or

(3) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directors or the shareholders.

(b) Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board which authorizes a contract or transaction specified in subsection (a).

SECTION 8.05. DEPOSITS. All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as shall be designated as banks of the corporation in accordance with resolutions adopted by the board of directors, and all such funds shall be withdrawn in accordance with resolutions adopted by the board of directors.

SECTION 8.06. CORPORATE RECORDS.

(a) Required Records. The corporation shall keep complete and accurate books and records of account, minutes of the proceedings of the incorporators, shareholders and directors and a share register giving the names and addresses of all shareholders and the number and class of shares held by each. The share register shall be kept at either the registered office of the corporation in the Commonwealth of Pennsylvania or at its principal place of business wherever situated or at the office of its registrar or transfer agent. Any books, minutes or other records may be in written form or any other form capable of being converted into written form within a reasonable time.

(b) Right of Inspection. Every shareholder shall, upon written verified demand stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours of business for any proper purpose, the share register, books and records of account, and records of the proceedings of the incorporators, shareholders and directors and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to the interest of the person as a shareholder. In every instance where an attorney or other agent is the person who seeks the right of inspection, the demand shall be accompanied by a verified power of attorney or other writing that authorizes the attorney or other agent to so act on behalf of the shareholder. The demand shall be directed to the corporation at its registered office in the Commonwealth of Pennsylvania or at its principal place of business wherever situated.

[SECTION 8.07 INAPPLICABILITY OF SECTION 910 OF THE PENNSYLVANIA BUSINESS CORPORATION LAW. Effective December 23, 1983, Section 910 of the Pennsylvania Business Corporation Law (added by Pennsylvania Act No. 1983-92 enacted December 23, 1983) shall not be applicable to the corporation. This Section 8.07 shall continue in effect until rescinded by an amendment to the Articles of Incorporation of the corporation.]

[Superseded by Statute.]

SECTION 8.08. AMENDMENT OF BYLAWS. These bylaws may be amended or repealed, or new bylaws may be adopted, either (i) by vote of the shareholders at any duly organized annual or special meeting of shareholders, or (ii) with respect to those matters that are not by statute committed expressly to the shareholders and regardless of whether the shareholders have previously adopted or approved the bylaw being amended or repealed, by vote of a majority of the board of directors of the corporation in office at any regular or special meeting of directors. Any change in these bylaws shall take effect when adopted unless otherwise provided in the resolution effecting the change.

SECTION 8.09. PREVENTION OF "GREENMAIL." The corporation shall not repurchase shares for more than the market value thereof from any shareholder who beneficially owns more than 5% of the outstanding Common Stock of the corporation and has beneficially owned such shares for less than two years from the date of repurchase without (1) first obtaining the affirmative vote of the shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast thereon, or (2) offering to repurchase shares from all shareholders upon the same terms. "Beneficially owned" as used herein shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended, or any successor provision thereto.

ARTICLE IX

INDEMNIFICATION OF DIRECTORS, OFFICERS AND
OTHER INDEMNIFIED REPRESENTATIVES

(This Article effective for acts occurring on or after May 12, 1987)

SECTION 9.01. SCOPE OF INDEMNIFICATION.

(a) The corporation shall indemnify an indemnified representative against any liability incurred in connection with any proceeding in which the indemnified representative may be involved as a party or otherwise, by reason of the fact that such person is or was serving in an indemnified capacity, including without limitation any liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except where such indemnification is for acts or failures to act constituting self-dealing, willful misconduct or recklessness.

(b) If an indemnified representative is entitled to indemnification in respect of a portion, but not all, of any liabilities to which such person may be subject, the corporation shall indemnify such indemnified representative to the maximum extent for such portion of the liabilities.

(c) The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the indemnified representative is not entitled to indemnification.

(d) For purposes of this Article:

(1) "indemnified capacity" means any and all past, present and future service by an indemnified representative in one or more capacities as a director, officer, employee or agent of the corporation, or, at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

(2) "indemnified representative" means any and all directors and officers of the corporation and any other person designated as an indemnified representative by the board of directors of the corporation (which may, but need not, include any person serving at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise);

(3) "liability" means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, attorneys' fees and disbursements);

(4) "proceeding" means any threatened, pending or completed action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether brought by or in the right of the corporation, a class of its security holders or otherwise; and

(5) "self-dealing" means receipt of a personal benefit from the corporation to which the recipient is not legally entitled.

SECTION 9.02. PROCEEDINGS INITIATED BY INDEMNIFIED REPRESENTATIVES. Notwithstanding any other provision of this Article, the corporation shall not indemnify under this Article an indemnified representative for any liability incurred in a proceeding initiated (which shall not be deemed to include counterclaims or affirmative defenses) or participated in as an intervenor or amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of the directors in office. This section does not apply to reimbursement of expenses incurred in successfully prosecuting or defending an arbitration under Section 9.06(d) of this Article or otherwise successfully prosecuting or defending the rights of an indemnified representative granted by or pursuant to this Article.

SECTION 9.03. ADVANCING EXPENSES. The corporation shall pay the expenses (including attorneys' fees and disbursements) incurred in good faith by an indemnified representative in advance of the final disposition of a proceeding described in Section 9.01 and 9.02 of this Article upon receipt of an undertaking by or on behalf of the indemnified representative to repay such amount if it shall ultimately be determined pursuant to Section 9.06(d) that such person is not entitled to be indemnified by the corporation pursuant to this Article. The financial ability of an indemnified representative to repay an advance shall not be a prerequisite to the making of such advance.

SECTION 9.04 SECURING OF INDEMNIFICATION OBLIGATIONS. To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the corporation or use any other mechanism or arrangement whatsoever in such amounts, at such costs and upon such other terms and conditions as the board of directors shall deem appropriate. Absent fraud, the determination of the board of directors with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, officers and directors and shall not be subject to voidability.

SECTION 9.05. PAYMENT OF INDEMNIFICATION. An indemnified representative shall be entitled to indemnification within 30 days after a written request for such indemnification has been delivered to the secretary of the corporation.

SECTION 9.06. INDEMNIFICATION PROCEDURE.

(a) An indemnified representative shall use such indemnified representative's best efforts to notify promptly the secretary of the corporation of the commencement of any proceeding or the occurrence of any event which might give rise to a liability under this Article, but the failure so to notify the corporation shall not relieve the corporation of any liability which it may have to the indemnified representative under this Article or otherwise.

(b) The corporation shall be entitled, upon notice to any such indemnified representative, to assume the defense of any proceeding with counsel reasonably satisfactory to the indemnified representative, or a majority of the indemnified representatives involved in such proceeding if there be more than one. If the corporation notifies the indemnified representative of

its election to defend the proceeding, the corporation shall have no liability for the expenses (including attorneys' fees) of the indemnified representative incurred in connection with the defense of such proceeding subsequent to such notice, unless (i) such expenses (including attorneys' fees) have been authorized by the corporation, (ii) the corporation shall not in fact have employed counsel reasonably satisfactory to such indemnified representative or indemnified representatives to assume the defense of such proceeding, or (iii) it shall have been determined pursuant to Section 9.06(d) that the indemnified representative was entitled to indemnification for such expenses under this Article or otherwise. Notwithstanding the foregoing, the indemnified representative may elect to retain counsel at the indemnified representative's own cost and expense to participate in the defense of such proceeding.

(c) The corporation shall not be required to obtain the consent of the indemnified representative to the settlement of any proceeding which the corporation has undertaken to defend if the corporation assumes full and sole responsibility for such settlement and the settlement grants the indemnified representative an unqualified release in respect of all liabilities at issue in the proceeding. Whether or not the corporation has elected to assume the defense of any proceeding, no indemnified representative shall have any right to enter into any full or partial settlement of the proceeding without the prior written consent of the corporation (which consent shall not be unreasonably withheld), nor shall the corporation be liable for any amount paid by an indemnified representative pursuant to any settlement to which the corporation has not so consented.

(d) Any dispute related to the right to indemnification, contribution or advancement of expenses as provided under this Article, except with respect to indemnification for liabilities under the Securities Act of 1933 which the corporation has undertaken to submit to a court for adjudication, shall be decided only by arbitration in the metropolitan area in which the principal executive offices of the corporation are located, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association, before a panel of three arbitrators, one of whom shall be selected by the corporation, the second of whom shall be selected by the indemnified representative and the third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association, or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, or if one of the parties fails or refuses to select an arbitrator, or if the arbitrators selected by the corporation and the indemnified representative cannot agree on the selection of the third arbitrator within 30 days after such time as the corporation and the indemnified representative have each been notified of the selection of the other's arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such metropolitan area. Each arbitrator selected as provided herein is required to be or have been a director or executive officer of a corporation whose shares of common stock were listed during at least one year of such service on the New York Stock Exchange or the American Stock Exchange or quoted on the National Association of Securities Dealers Automated Quotations System. The party or parties challenging the right of an indemnified representative to the benefits of this Article shall have the burden of proof. The corporation shall reimburse an indemnified representative for the expenses (including attorneys' fees and disbursements) incurred in successfully prosecuting or defending such arbitration. Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable.

(e) Upon a payment to any indemnified representative under this Article, the corporation shall be subrogated to the extent of such payment to all of the rights of the indemnified representative to recover against any person for such liability, and the indemnified representative shall execute all documents and instruments required and shall take such other actions as may be necessary to secure such rights, including the execution of such documents as may be necessary for the corporation to bring suit to enforce such rights.

SECTION 9.07. CONTRIBUTION. If the indemnification provided for in this Article or otherwise is unavailable for any reason in respect of any liability or portion thereof, the corporation shall contribute to the liabilities to which the indemnified representative may be subject in such proportion as is appropriate to reflect the intent of this Article or otherwise.

SECTION 9.08. DISCHARGE OF DUTY. An indemnified representative shall be deemed to have discharged such person's duty to the corporation if he or she has relied in good faith on information, opinions, reports or statements prepared or presented by any of the following:

(a) one or more officers or employees of the corporation whom such indemnified representative reasonably believes to be reliable and competent with respect to the matter presented;

(b) legal counsel, public accountants or other persons as to matters that the indemnified representative reasonably believes are within the persons' professional or expert competence; or

(c) a committee of the board of directors on which he or she does not serve as to matters within its area of designated authority, which committee he or she reasonably believes to merit confidence.

SECTION 9.09. CONTRACT, RIGHTS; AMENDMENT OR REPEAL. All rights to indemnification, contribution and advancement of expenses under this Article shall be deemed a contract between the corporation and the indemnified representative pursuant to which the corporation and each indemnified representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

SECTION 9.10. SCOPE OF ARTICLE. The rights granted by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any statute, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an indemnified capacity and as to action in any other capacity. The indemnification, and advancement of expenses provided by or granted pursuant to this Article shall continue as to a person who has ceased to be an indemnified representative in respect of matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

SECTION 9.11. RELIANCE ON PROVISIONS. Each person who shall act as an indemnified representative of the corporation shall be deemed to be doing so in reliance upon the rights of indemnification, and advancement of expenses provided by this Article.

SECTION 9.12. INTERPRETATION. The provisions of this Article have been adopted by the shareholders of the corporation and are intended to constitute By laws authorized by Section 410F of the Pennsylvania Business Corporation Law and 42 Pa.C.S. Section 8365.

(The provisions of this Article IX were first adopted by the shareholders of the corporation on May 12, 1987.)

Amended and Restated 2/27/90.

As amended through September 30, 2003

UGI UTILITIES, INC.
SEVERANCE PLAN
FOR EXEMPT EMPLOYEES IN
SALARY GRADES 34-37 AND
SALARY GRADES 18-23

EFFECTIVE JANUARY 1, 1999

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ARTICLE I
INTRODUCTION

1.1 Background. UGI Utilities, Inc. wishes to adopt a severance pay plan for certain employees in Salary Grades 34 - 37 and 18 - 23, effective January 1, 1999. This Severance Pay Plan will supersede any and all prior practices and plans.

1.2 Purpose of Plan. The purpose of the UGI Utilities, Inc. Severance Plan for Salary Grades 34 - 37 and 18 - 23, is to alleviate in part or in full financial hardships which may be experienced by certain Employees of the Employer whose employment is terminated involuntarily, other than for cause, due to (i) the elimination of their position or a reduction in work force, as determined by the Employer; or (ii) such other circumstances as the Employer, acting in its role as the employer and not as a fiduciary, may determine. In essence, benefits under the Plan are intended to be supplemental unemployment benefits which will assist a designated individual during the transition period until other employment is found. The benefits provided under the Plan also are intended to serve as consideration for the Employee's execution of a general release as required hereunder. The Plan is not intended to be included in the definitions of "employee pension benefit plan" and "pension plan" set forth under Section 3(2) of ERISA by reason of being excepted from such definition as a "severance pay arrangement" within the meaning of Section 3(2)(B)(i) of ERISA. This Plan is intended to meet the descriptive requirements of a plan constituting a "severance pay plan" within the meaning of regulations published by the Secretary of Labor at Title 29, Code of Federal Regulations, Section 2510.3-2(b). Accordingly, the benefits paid by the Plan are not deferred compensation and no employee shall have a vested right to such benefits.

1.3 Term of Plan. The Plan will continue until such time as the Employer, acting in its sole discretion, elects to amend, modify, supersede or terminate the Plan for any reason and at any time.

ARTICLE II
DEFINITIONS

2.1 "Benefit" means the amount that a Participant is entitled to receive pursuant to Section 4.2.

2.2 "Compensation" means an Employee's annual base salary and applicable target annual bonus amount, if any, in effect on the first day of the calendar quarter immediately preceding the Employee's Employment Termination Date.

2.3 "Effective Date" means January 1, 1999.

2.4 "Employee" means any employee in Salary Grades 34 - 37 and 18 - 23 who is classified by the Employer as a full-time, active employee; provided, however, that "Employee" does not include any exempt employee in an executive employment category, as determined by the Employer who is covered by the UGI Corporation Senior Executive Employee Severance Pay Plan or any employee whose wages and conditions of employment are the subject of a collective bargaining agreement between the Employer and a collective bargaining agent unless the applicable agreement specifically provides for the participation herein of such employee.

2.5 "Employer" means UGI Utilities, Inc. and any successor thereto which adopts the Plan.

2.6 "Employment Termination Date" shall mean the date on which the current employment relationship between the Participant and the Employer is terminated.

2.7 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

2.8 "For Cause" means any reason for dismissing an Employee from employment with the Employer which the Employer, acting in its role as the employer and not as a fiduciary, determines, in its sole discretion, would constitute grounds for denying payment of Benefits under the Plan upon the Employee's dismissal. The term "For Cause" shall include, but shall not be limited to, dismissal due to breach of trust, unacceptable behavior or performance, excessive absenteeism or tardiness, unsatisfactory performance, or insubordination.

2.9 "Named Fiduciary" means the Employer, Plan Administrator, and the Named Appeals Fiduciary within the meaning of Section 9.3. Each Named Fiduciary shall have only those particular fiduciary powers, duties, responsibilities and obligations as are specifically given it under this Plan. Any Named Fiduciary, if so appointed, may perform in more than one fiduciary capacity.

2.10 "Paid Notice Period" shall mean the time period, which may vary depending upon a Participant's grade level at the time of a Qualifying Termination for which the Employee:

- (i) is paid salary continuation under Section 4.2(d) of the Plan; and
- (ii) is provided with the continuation of certain benefits under Section 4.3 of the Plan.

2.11 "Participant" means any Terminated Employee who is entitled to receive a Benefit hereunder.

2.12 "Plan" means the UGI Utilities, Inc. Severance Plan for Exempt Employees in Salary Grades 34 - 37 and 18 - 23 as set forth herein, and as the same may from time-to-time be amended, modified, superseded or terminated in the sole discretion of the Employer for any reason and at any time.

2.13 "Plan Administrator" means an individual or a committee of two or more individuals appointed by the Employer, UGI Utilities, Inc., to serve as such, or in the absence of such appointment, the Employer, acting through its officers.

2.14 "Plan Year" means the initial period from the Effective Date through September 30, 1999 and the twelve month period commencing on each October 1 thereafter and ending on the following September 30.

2.15 "Qualifying Termination" means, subject to Section 3.2 which enumerates certain exclusions, an involuntary termination of employment, for reasons other than For Cause, occurring as a result of (i) the sale or discontinuance of operations (other than a discontinuance of operations and a termination of employment which the Employer determines is of a temporary nature) of the Employer facility in which the Employee has been employed, (ii) the occurrence of any other special event which gives rise to job eliminations, or (iii) such other circumstances as the Employer, acting in its role as the employer and not as a fiduciary, may determine and which the Employer shall determine, in its sole discretion and solely with respect to such occurrence, shall create an entitlement to Benefits hereunder.

2.16 "Subsequent Employer" means another person or entity who becomes the Employee's employer and who purchases some or all of the assets or stock or continues the operation of a former facility of the Employer or one of its affiliates at which the Employee performed significant functions while an employee of UGI Utilities, Inc. or one of its affiliates.

2.17 "Terminated Employee" means an Employee who has been designated in accordance with Section 3.1 as one whose employment has been terminated by reason of a Qualifying Termination.

2.18 "Termination Date" means the date of a "Qualifying Termination".

ARTICLE III
ELIGIBILITY FOR BENEFITS

3.1 Benefit Eligibility. The Employer shall designate in its sole discretion to the Plan Administrator those Employees whose employment has been terminated by reason of a Qualifying Termination.

3.2 Exclusions. Notwithstanding the provisions of Section 3.1, an Employee will not be deemed to have had a Qualifying Termination and, accordingly, will not be eligible for Benefits, if any of the following circumstances apply:

(a) The Employee has completed less than three months of continuous service;

(b) The Employee's termination from employment is due to a voluntary termination (with or without notice), retirement, death, military service, or a disability entitling him or her to benefits under any sick pay or disability income plan or policy sponsored by the Employer (including Workers Compensation);

(c) The Employee was hired for a definite term or task (e.g., temporary employees);

(d) The Employee receives an offer of employment with the Employer or one of its affiliates with a geographic location of under 50 miles from the Employee's present work location; or

(e) The Employee (i) is employed by a Subsequent Employer after such termination of employment ; or (ii) receives an offer (either stated or implicit) of employment with a Subsequent Employer in a position the duties of which are substantially comparable to the Employee's employment duties immediately prior to such termination of employment, without regard to whether the pay or other terms and conditions of employment are comparable.

3.3 Release/Effect of Plan Participation on Claims. Eligibility for Benefits under this Plan are expressly contingent on the Employee signing and not rescinding or contesting the enforceability of a release containing a waiver of claims in such form as may be prescribed from time-to-time by the Employer, acting as an employer and not as a fiduciary. The Employer, in its sole discretion, acting in its role as employer and not as a fiduciary, may waive application of this provision with regard to the occurrence of any of the foregoing events or circumstances.

ARTICLE IV
BENEFIT

4.1 Benefit. Subject to the provisions of Section 7.1, the Employer, in its sole discretion, acting in its role as the employer and not as a fiduciary, shall determine which Terminated Employees shall be awarded a Benefit hereunder and the amount of any such Benefit. The Employer may take into account the Terminated Employee's contributions to the business of the Employer, position within the Employer, length of service, the employment market for the Terminated Employee's skills or any other factors it determines to be relevant in deciding which Terminated Employees shall be awarded Benefits and the amount of such Benefits, and need not apply its determination in a uniform manner to Terminated Employees similarly situated. Furthermore, the Employer, acting as an employer and not as a fiduciary, may in its sole discretion deny Benefits to any Terminated Employee.

4.2 Amount of Immediate Cash Benefit. The cash amount to be paid to a Terminated Employee eligible to receive benefits under Articles III and IV hereof, shall equal the sum of the following:

(a) An amount of severance pay equal to a minimum of five (5) times the Daily Cash Compensation per year of continuous service to a maximum of twelve (12) times the Daily Cash Compensation per year of continuous service. "Daily Cash Compensation" means Compensation divided by 260. The minimum Benefit paid to any Terminated Employee shall be an amount equal to a Terminated Employee's Compensation for two (2) weeks (10 days) and the maximum Benefit paid to any terminated Employee under this formula will be an amount equal to a Terminated Employee's Compensation for one (1) year. A "year of continuous service" shall be measured from the Terminated Employee's most recent employment commencement date to his or her Employment Termination Date.

(b) An amount equal to the vacation that the Terminated Employee would earn from Employment Termination Date to the conclusion of the Terminated Employee's applicable Paid Notice Period;

(c) An amount equal to the Terminated Employee's target annual bonus amount, under the applicable annual bonus plan (or its successor), if any, for the current Plan Year multiplied by the number of months elapsed in the current Plan Year to the Terminated Employee's Employment Termination Date and divided by twelve (12); provided, however, that if the Employment Termination Date occurs in the last two (2) months of the Plan Year, in lieu of the payment described above, the amount to be paid pursuant to this clause (c) shall be determined and paid after the end of the Plan Year in accordance with the terms and conditions of the applicable annual bonus plan, if any, as though the Terminated Employee were still an Employee, except that the weighting to be applied to the Terminated Employee's business/financial performance goals under the

annual bonus plan will be prorated deemed to be 100%; provided further, however, that in the discretion of the Chief Executive Officer, the amount payable pursuant to this paragraph (c) may be computed in all cases for Employment Termination Dates occurring during the first ten (10) months of the fiscal year;

(d) An amount of salary continuation to be paid during the Paid Notice Period equal to Compensation divided by twelve (12) and multiplied by the number of months of Paid Notice as follows: Grades 18 - 23 and exempt directs to a Vice-President of UGI Utilities, Inc., one month and Grades 34 - 37, two months: and

(e) An amount equal to all earned and accrued vacation through the Employment Termination Date.

4.3 Other Benefits. A Terminated Employee shall continue to be entitled, through the end of the Terminated Employee's applicable Paid Notice Period as set forth above, to those employee benefits listed below, as in effect from time-to-time during the applicable Paid Notice Period based upon the amount of coverage or benefit provided at the Termination Date:

- (a) Basic Life Insurance;
- (b) Supplemental Life Insurance;
- (c) Medical Plan and Dental Assistance Plan; and
- (d) For Salary Grades 34 - 37, UGI Corporation Supplemental Executive Retirement Plan.

Contributions for these coverages will be deducted from the Employee's lump sum payment on an after-tax basis.

4.4 Effect on Retirement and Other Benefit Plans or Payments.

(a) This Plan shall not govern and shall in no way affect the Terminated Employee's interest in, or entitlement to benefits under any of the Employer's qualified retirement plans, and any payments received under any such plan shall not affect a Terminated Employee's right to any benefit hereunder.

(b) A Terminated Employee who has been awarded Benefits under Sections 4.1 through 4.3 may continue to receive health benefits after the Employment Termination Date or any applicable Paid Notice Period under the applicable health plan maintained by the Employer for such period of time as may be required by applicable federal or state law at the same rates that are charged by the Employer to its terminated employees who are not participants in this Plan.

(c) There shall not be drawn from the provision by the Employer of any Benefits under Section 4.3, any implication of continued employment or of continued right to accrual of retirement plan benefits under the Company's qualified retirement plans, nor shall a Terminated Employee, except as provided in Section 4.2(b), accrue vacation days, paid holidays, paid sick days or other similar benefits normally associated with employment for any period after the Employment Termination Date or any applicable Paid Notice Period.

(d) The Benefits payable under this Plan shall be reduced by any and all separation payments or other similar payment required to be made by the Employer under federal, state and local laws including, but not limited to, the Worker Adjustment and Retraining Notification Act.

ARTICLE V
METHOD AND DURATION OF BENEFIT PAYMENTS

5.1 Method of Payment. Except as provided in Section 4.2(c), the Benefit to which a Terminated Employee is entitled, shall be paid in a single lump sum, unless the Employer, in its sole discretion, acting in its role as employer and not as a fiduciary, determines otherwise. Payment shall be made by personal delivery, by mailing to the last address provided to the Employer by the Terminated Employee or, at the election of the Terminated Employee and subject to the consent of the Employer, by depositing in accordance with any direct deposit instructions received by the Terminated Employee. In general, payment shall be made as promptly as practicable after (a) the Terminated Employee's Qualifying Termination; and (b) after the execution by the Employer of the release satisfying the requirements of Section 3.3; and (c) the expiration of any and all waiting periods under federal, state and local law relating to the execution of the release. In no event will interest be credited on the unpaid balance of any Benefit to which a Terminated Employee may become entitled. All Benefits are subject to applicable federal, state and local taxes.

5.2 Termination of Entitlement to Benefits. A Participant shall cease to participate in the Plan, and any Benefits to any Terminated Employee shall cease, upon the occurrence of the earliest of:

- (a) the termination of the Plan or the adoption of an amendment to the Plan which would result in the cessation of Benefit payments hereunder;
- (b) completion of the Paid Notice Period as defined at Section 2.10;
- (c) the death of the Employee; or
- (d) the discovery that the Terminated Employee's termination from employment with the Employer was For Cause, whether or not such discovery occurs before the Employee's Termination Date.

In the event that the circumstances described in Section 5.2(d) occur after a Terminated Employee has received Benefits, the Terminated Employee will forfeit any and all entitlement to Benefits and will be required to return to the Employer immediately, the full amount of any such Benefit.

The Employer, in its sole discretion, acting in its role as employer and not as a fiduciary, may waive application of this provision with regard to the occurrence of any of the foregoing events or circumstances.

5.3 Effect of Reemployment. In the event a Terminated Employee who qualifies for Benefits hereunder is rehired as a full-time employee of the Employer, or hired as a full-time employee of any affiliate of the Employer, the Employer has the right to cease payment of Benefits and/or require the repayment of all or a portion of the benefit amount paid as a precondition to reemployment.

ARTICLE VI
THE PLAN ADMINISTRATOR

6.1 Authority and Duties. It shall be the duty of the Plan Administrator, on the basis of information supplied to it by the Employer to determine the eligibility of each Terminated Employee to participate in the Plan. The Employer, in its role as the employer and not as a fiduciary, shall determine the amount of Benefit to which each Participant may be entitled and the manner and time of payment of the Benefit. The Plan Administrator shall have the full power and authority to construe, interpret and administer the Plan, to correct deficiencies therein, and to supply omissions. All decisions, actions and interpretations of the Plan Administrator shall be final, binding and conclusive upon the parties, subject only to determinations by the Named Appeals Fiduciary with respect to denied claims for Benefits. Any decisions, actions or interpretations to be made under the Plan by the Employer, in its role as an employer and not as a fiduciary, shall be made in its sole discretion and need not be uniformly applied to similarly situated individuals and shall also be final, binding and conclusive upon the parties.

6.2 Records, Reporting and Disclosure. The Plan Administrator shall keep all individual and group records relating to Participants and former Participants and all other records necessary for the proper operation of the Plan. The Plan Administrator shall prepare and shall file as required by law or regulation all reports, forms, documents and other items required by ERISA, the Internal Revenue Code, and every other relevant statute, each as amended, and all regulations thereunder, except that the Employer, as payor of the Benefits, shall prepare and distribute to the proper recipients all forms relating to withholding of income or wage taxes, Social Security taxes, and other amounts which may be similarly reportable.

6.3 Compensation, Expenses and Indemnification of the Plan Administrator. Individuals serving (either alone or as a committee) as the Plan Administrator who are full time employees of the Employer shall receive no additional compensation for their services as Plan Administrator. However, all reasonable expenses of the Plan Administrator shall be paid or reimbursed by the Employer upon proper documentation. Individuals serving (either alone or as a committee) as the Plan Administrator shall be indemnified by the Employer against personal liability and defense costs for actions taken in good faith in the discharge of their duties as the Plan Administrator.

6.4 Bonding. The Plan Administrator shall arrange any bonding that may be required by law, but no amount in excess of the amount required by law (if any) shall be required by the Plan.

ARTICLE VII
AMENDMENT, SUSPENSION AND TERMINATION

7.1 Amendment, Suspension and Termination. The Employer reserves the right, in its role as employer and not as a fiduciary, at any time and from time to time, to amend, modify, suspend or terminate the Plan in whole or in part, for any reason and at any time, and without either the consent of, or the prior notification to, any Participant, Terminated Employee, Employee or other individual. No such amendment, modification, suspension or termination shall give the Employer the right to recover any amount paid to a Participant prior to the date of such amendment, modification, suspension or termination. However, any such amendment, modification, suspension or termination may cause the discontinuance of payments of Benefits, or the cessation of the obligation to pay any Benefit, to any person or persons under the Plan. The Employer shall have the right to delegate its authority and powers hereunder, or any portion thereof, to a committee, an affiliated company or any other individual or entity.

ARTICLE VIII
DUTIES OF THE EMPLOYER

8.1 Records. The Employer shall supply to the Plan Administrator all records and information necessary to the performance of the Plan Administrator's duties.

8.2 Payment. The Employer shall make payments from its general assets to Participants in accordance with the terms of the Plan.

8.3 Appointment of Fiduciaries. The Employer shall appoint, and may at any time remove, the Plan Administrator and the Named Appeals Fiduciary in accordance with the applicable provisions of the Plan.

ARTICLE IX
CLAIMS PROCEDURES

9.1 Application for Benefits. Each Terminated Employee believing himself or herself to be entitled to Benefits under this Plan may apply for such Benefits within 30 days of his or her termination of employment. Such application must be in writing and must state the reason(s) the Terminated Employee believes he or she is entitled to Benefits under this Plan and include such other information as may be required by the Plan Administrator. Before the date on which Benefits are paid or payments commence, each such application must be supported by such information as the Plan Administrator deems relevant and appropriate. Benefits shall not be paid or commence to be paid until an application has been submitted and approved by the Plan Administrator in accordance with such rules and procedures as the Plan Administrator may from time to time prescribe.

9.2 Appeals of Denied Claims for Benefits. In the event that any claim for Benefits is denied in whole or in part by the Plan Administrator, the claimant whose claim has been so denied shall be notified of such denial in writing by the Plan Administrator. The notice advising of the denial shall specify the reason or reasons for denial, make specific reference to pertinent Plan provisions, describe any additional material or information necessary for the claimant to perfect the claim (explaining why such material or information is needed), and shall advise the individual of the procedure for the appeal of such denial. All appeals shall be made by the following procedure:

(a) The Terminated Employee whose claim has been denied shall file with the Plan Administrator a notice of desire to appeal the denial. Such notice must be filed within sixty (60) days of notification of the claim denial, be made in writing, and set forth all of the facts upon which the appeal is based. Appeals not timely filed in writing shall be barred.

(b) The Plan Administrator shall, within thirty (30) days of receipt of the claimant's notice of appeal, establish a hearing date on which the claimant may make an oral presentation via telephone or in person to the Named Appeals Fiduciary in support of his or her appeal. The claimant shall be given not less than ten (10) days notice of the date set for the hearing.

(c) The Named Appeals Fiduciary shall consider the merits of the claimant's written and oral presentations, the merits of any facts or evidence in support of the denial of benefits, and such other facts and circumstances as the Named Appeals Fiduciary shall deem relevant. If the claimant elects not to make an oral presentation, such election shall not be deemed adverse to his or her interest, and the Named Appeals Fiduciary shall proceed as set forth below as though an oral presentation of the contents of the claimant's written presentation had been made.

(d) The Named Appeals Fiduciary shall render a determination upon the appeal, which determination shall be accompanied by a written statement as to the reasons therefor. The determination so rendered shall be binding upon all parties and shall not be overturned by a reviewing tribunal unless it can be shown that the decision was arbitrary and capricious. In applying this standard, a reviewing tribunal shall not set aside the decision of the Named Appeals Fiduciary as long as there exists any rational basis for the decision of the Named Appeals Fiduciary.

9.3 Appointment of the Named Appeals Fiduciary. The Named Appeals Fiduciary shall be an individual or a committee of two or more individuals appointed by the Employer, who may, but need not be, employees of the Employer, or in the absence of such appointment, the Named Appeals Fiduciary shall be the Plan Administrator. The Named Appeals Fiduciaries may at any time be removed by the Employer. All such removals may be with or without cause and shall be effective on the date stated in the notice of removal. The Named Appeals Fiduciary shall be a "named fiduciary" within the meaning of ERISA, and shall have only the authority, responsibility, or liability set forth in this Article IX.

ARTICLE X
MISCELLANEOUS PROVISIONS

10.1 Nonalienation of Benefits. None of the payments, benefits or rights of any Participant shall be subject to any claim of any creditor and, in particular, to the fullest extent permitted by law, all such payments, benefits and rights shall be free from attachment, garnishment, trustee's process, or any other legal or equitable process available to any creditor of such Participant. No Participant shall have the right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments which he or she may expect to receive, contingently or otherwise, under this Plan.

10.2 No Contract of Employment. Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as giving any Employee, or any person whosoever, the right to be retained in the service of the Employer, and all Employees shall remain subject to discharge to the same extent as if the Plan had never been adopted.

10.3 Severability of Provisions. Except for those provisions contained in Section 3.3 which go to the essence of this Plan and require the execution of a release as a condition precedent to eligibility, if any other provision of this Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and this Plan shall be construed and enforced as if such provision had not been included.

10.4 Heirs, Assigns and Personal Representatives. This Plan shall be binding upon the heirs, executors, administrators, successors and assigns of the parties, including each Participant, present and future (except that no successor to the Employer shall be considered a Plan sponsor unless that successor adopts this Plan).

10.5 Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

10.6 Gender and Number. Except where otherwise clearly indicated by context, the masculine and the neuter shall include the feminine and the neuter, the singular shall include the plural, and vice-versa.

10.7 Unfunded Plan. The Plan shall not be funded. No Participant shall have any right to, or interest in, any assets of the Employer which may be applied by the Employer to the payment of Benefits.

10.8 Payments to Incompetent Persons, Etc. Any Benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receiving therefor shall be deemed paid when paid to such person's guardian or to the party providing or reasonably

appearing to provide for the care of such person, and such payment shall fully discharge the Employer, the Plan Administrator and all other parties with respect thereto.

10.9 Appendices. From time to time, the Employer may elect to append provisions of limited duration to this Plan to govern what the Employer determines to be special circumstances governing certain Employees. Each such Appendix, during the period stipulated therein, shall be deemed a part of this Plan. Except as otherwise stated in any such Appendix applicable to any Employee or Terminated Employee, the rights of such Employee or Terminated Employee as stated in such Appendix shall supersede the rights provided under this Plan; the Benefits provided under such Appendix shall be in lieu of comparable or stipulated Benefits provided under this Plan, and there shall be no duplication of Benefits.

10.10 Lost Payees. A benefit shall be deemed forfeited if the Plan Administrator is unable to locate a Participant to whom a Benefit is due. At the sole discretion of the Employer, acting in its role as an employer and not as a fiduciary, such Benefit may be reinstated if application is made by the Participant for the forfeited Benefit while this Plan is in operation.

10.11 Controlling Law. This Plan shall be construed and enforced according to Pennsylvania law except to the extent superseded by federal law.

IN WITNESS WHEREOF, the Employer has caused this Plan to be executed in its name and behalf this 1st day of January, 1999, by its officers thereunto duly authorized.

UGI UTILITIES, INC.

Attest:

By: /s/ John C. Barney

By: /s/ Robert J. Chaney

AMENDED AGREEMENT

Amended Agreement ("Agreement") made as of July 27, 1999, among UGI Utilities, Inc., a Pennsylvania corporation (the "Company"), its corporate parent, UGI Corporation, a Pennsylvania corporation ("UGI") and Robert J. Chaney (the "Employee").

WHEREAS, UGI and the Employee entered into an Agreement as of June 28, 1996, to provide for certain payments to be made to the Employee in the event of a change of control of UGI; and

WHEREAS, UGI and the Employee amended the Agreement as of July 29, 1997 and February 23, 1999, as permitted by Section 16 of the Agreement; and

WHEREAS, the board of directors of the Company has approved, as of July 27, 1999, the assumption by the Company of all of the liabilities and obligations of UGI under the Amended Change of Control Agreement dated as of February 23, 1999 between UGI and the Employee, except for obligations, if any, arising under Section 5 thereof; and

WHEREAS, the Company and the Employee wish to provide for such assumption; and

WHEREAS, the Company and the Employee also wish to amend the Agreement, as permitted by Section 16; and

WHEREAS, the Company considers it essential to foster the employment of well qualified key management personnel, and, in this regard, the board of directors of the Company recognizes that, as is the case with many corporations, the possibility of a

change in control affecting UGI or the Company may exist and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of key management personnel to the detriment of the Company; and

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

WHEREAS, in order to induce the Employee to remain in the employ of the Company, the Company agrees that the Employee shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control," as defined in Section 1 hereof, as a cushion against the financial and career impact on the Employee of any such Change of Control;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the Company hereby assumes and agrees to discharge and perform all obligations and liabilities of UGI under the Amended Agreement dated as of February 23, 1999 between UGI and the Employee, except for obligations, if any, arising under Section 5 thereof; and UGI hereby agrees to perform all its liabilities and obligations under Section 5 hereof; and the parties hereto agree that the Agreement shall read as follows:

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

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

(b) "Base Compensation" shall mean the average of the total cash remuneration received by the Employee in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Employee under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options granted to the Employee under UGI's Stock Option and Dividend Equivalent Plan or its successor, for the five calendar years (or such number of actual full calendar years of employment, if less than five) immediately preceding the calendar year in which occurs a Change of Control or the Employee's Termination Date, whichever period produces the higher amount.

(c) A Person shall be deemed the "Beneficial Owner" of any securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants

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

commitment underwriting until the expiration of forty days after the date of such acquisition.

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

(e) "Change of Control" shall mean:

(i) Any Person (except the Employee, his Affiliates and Associates, UGI, any Subsidiary of UGI, any employee benefit plan of UGI or of any Subsidiary of UGI, or any Person or entity organized, appointed or established by UGI or any Subsidiary of UGI for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner in the aggregate of 20% or more of either (i) the then outstanding shares of common stock of UGI (the "Outstanding UGI Common Stock") or (ii) the combined voting power of the then outstanding voting securities of UGI entitled to vote generally in the election of directors (the "UGI Voting Securities"); or

(ii) Individuals who, as of the beginning of any twenty-four month period, constitute the UGI Board (the "Incumbent UGI Board") cease for any reason to constitute at least a majority of the Incumbent UGI Board, provided that any individual becoming a director of UGI subsequent to the beginning of such period whose election or nomination for election by the UGI stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent UGI Board shall be considered as though such individual were a member of the Incumbent UGI Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of UGI (as

such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) Completion by UGI of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of the Outstanding UGI Common Stock and UGI Voting Securities immediately prior to such Business Combination do not, following such Business Combination, Beneficially Own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of the Outstanding UGI Common Stock and UGI Voting Securities, as the case may be; or

(iv) (a) Completion of a complete liquidation or dissolution of UGI or (b) sale or other disposition of all or substantially all of the assets of UGI other than to a corporation with respect to which, following such sale or disposition, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding UGI Common Stock and UGI Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their

ownership of the Outstanding UGI Common Stock and UGI Voting Securities, as the case may be, immediately prior to such sale or disposition; or

(v) UGI and its Subsidiaries fail to own more than fifty percent (50%) of the then outstanding shares of common stock of the Company or more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; or

(vi) Completion by the Company of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of the Company's outstanding common stock and voting securities immediately prior to such Business Combination do not, following such Business Combination, Beneficially Own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of the Company's outstanding common stock and voting securities, as the case may be; or

(vii) Completion of a complete liquidation or dissolution of the Company or sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by

all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Company's outstanding common stock and voting securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Company's outstanding common stock and voting securities, as the case may be, immediately prior to such sale or disposition.

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

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

(i) any failure of the Company to comply with and satisfy any of the terms of this Agreement;

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

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

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

(v) any transfer of the Employee, without his express written consent, to a location which is outside the general area in which his principal place of business immediately preceding the Change of Control may be located at such time by more than fifty miles, other than on a temporary basis (less than 12 months); and

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

(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Employee's 62nd birthday.

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

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

(k) "Termination of Employment" shall mean the termination of the Employee's actual employment relationship with the Company.

2. Notice of Termination. Any Termination of Employment following a Change of Control shall be communicated by a Notice of Termination to the

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Employee's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within three years after a Change of Control, the Company shall pay to the Employee, upon the execution of a release, in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to 1.5 times the Employee's Base Compensation, subject to customary employment taxes and deductions.

(b) In the event the Employee's Normal Retirement Date would occur prior to 18 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Employee's Normal Retirement Date and the denominator of which shall be 548 days.

4. Other Payments.

The payments due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Employee under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates.

5. Trust Fund. UGI sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy obligations under this Agreement. Funding of such trust fund shall be subject to the discretion of the UGI Board of Directors or the Executive Committee of the UGI Board of Directors, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

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

(b) It is the intent of the parties that the Employee not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Employee hereunder. Accordingly, the Company shall pay the Employee on demand the amount

necessary to reimburse the Employee in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Employee in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Increase in Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or

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

(b) All determinations to be made under this Section 11 shall be made by Coopers & Lybrand (or, at the Company's option, the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm")), which firm shall provide its determinations and any supporting calculations both to the Company and the Employee within 10 days of either (i) the Change of Control or (ii) the Termination Date, as the case may be. Any such determination by the Accounting Firm shall be binding upon the Company and the Employee. Within five days after the Accounting Firm's determination, the Company shall pay (or cause to be paid) or

distribute (or cause to be distributed) to or for the benefit of the Employee such amounts as are then due to the Employee under this Agreement.

(c) In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payment or Gross-Up Payment, a change is finally determined to be required in the amount of taxes paid by the Employee, appropriate adjustments shall be made under this Agreement such that the net amount which is payable to the Employee after taking into account the provisions of Section 4999 of the Code shall reflect the intent of the parties as expressed in subsection (a) above, in the manner determined by the Accounting Firm.

(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or wilful misconduct of the Accounting Firm, which firm shall provide its determinations and any supporting calculations both to the Company and the Employee within 10 days of either (i) the Change of Control or (ii) the Termination Date, as the case may be. Any such determination by the Accounting Firm shall be binding upon the Company and the Employee.

12. Term of Agreement. The term of this Agreement shall be for five years from the date hereof and shall be automatically renewed for successive one-year periods unless the Company notifies the Employee in writing that this Agreement will not be renewed at least sixty days prior to the end of the current term; provided, however, that

(i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Employee with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason.

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

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

If to the Company, to:

UGI Utilities, Inc.
Green Hills Corporate Center
100 Kachel Boulevard, Suite 400
Reading, PA 19607
Attention: Corporate Secretary

If to the Employee, to:

61 Wellington Blvd.
Wyomissing, PA 19690

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

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

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Employee and the Chairman of the Company. The provisions of this Agreement may

require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Employee. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by the Company or the Board.

17. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Employee any right to be retained in the employ of the Company.

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

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

20. Remedies Cumulative; No Waiver. No right conferred upon the Employee by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No

delay or omission by the Employee in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

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

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

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

ATTEST:

[Seal]

UGI UTILITIES, INC.

Corporate Secretary

By

Lon R. Greenberg
Chairman

ATTEST:

[Seal]

UGI CORPORATION

Corporate Secretary

By

Lon R. Greenberg
Chairman, President and
Chief Executive Officer

Witness

Robert J. Chaney

CHANGE OF CONTROL AGREEMENT

Agreement made as of <> between UGI Utilities, Inc., a Pennsylvania corporation (the "Company"), and <> <> (the "Employee").

WHEREAS, the Employee is presently employed by the Company, as its<>; and

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

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

WHEREAS, in order to induce the Employee to remain in the employ of the Company, the Company agrees that the Employee shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control," (as defined in Section 1 hereof) of the Company as a cushion against the financial and career impact on the Employee of any such Change of Control;

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

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

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

(b) "Base Compensation" shall mean the average of the total cash remuneration received by the Employee in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Employee under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options granted to the Employee under UGI's Stock Option and Dividend Equivalent Plan or its successor, for the five calendar years (or such number of actual full calendar years of employment, if less than five) immediately preceding the calendar year in which occurs a Change of Control or the Employee's Termination Date, whichever period produces the higher amount.

(c) A Person shall be deemed the "Beneficial Owner" of any securities: (i) that such Person or any of such Person's Affiliates or Associates, directly or indirectly,

has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding (whether or not in writing) or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the "Beneficial Owner" of securities tendered pursuant to a tender or exchange offer made by such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for payment, purchase or exchange; (ii) that such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Exchange Act), including without limitation pursuant to any agreement, arrangement or understanding, whether or not in writing; provided, however, that a Person shall not be deemed the "Beneficial Owner" of any security under this clause (ii) as a result of an oral or written agreement, arrangement or understanding to vote such security if such agreement, arrangement or understanding (A) arises solely from a revocable proxy given in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable provisions of the General Rules and Regulations under the Exchange Act, and (B) is not then reportable by such Person on Schedule 13D under the Exchange Act (or any comparable or successor report); or (iii) that are beneficially owned, directly or indirectly, by any other Person (or any Affiliate or Associate thereof) with which such Person (or any of such Person's Affiliates or Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of UGI

or the Company; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

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

(e) "Change of Control" shall mean:

(i) Any Person (except the Employee, his Affiliates and Associates, UGI, any Subsidiary of UGI, any employee benefit plan of UGI or of any Subsidiary of UGI, or any Person or entity organized, appointed or established by UGI or any Subsidiary of UGI for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, becomes the Beneficial Owner in the aggregate of 20% or more of either (i) the then outstanding shares of common stock of UGI (the "Outstanding UGI Common Stock") or (ii) the combined voting power of the then outstanding voting securities of UGI entitled to vote generally in the election of directors (the "UGI Voting Securities"); or

(ii) Individuals who, as of the beginning of any twenty-four month period, constitute the UGI Board (the "Incumbent UGI Board") cease for any reason to constitute at least a majority of the Incumbent UGI Board, provided that any individual becoming a director of UGI subsequent to the beginning of such period whose election or nomination for election by the UGI stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent UGI Board shall be considered as though such individual were a member of the Incumbent UGI Board, but excluding, for

this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of UGI (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(iii) Completion by UGI of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of the Outstanding UGI Common Stock and UGI Voting Securities immediately prior to such Business Combination do not, following such Business Combination, Beneficially Own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of the Outstanding UGI Common Stock and UGI Voting Securities, as the case may be; or

(iv) (a) Completion of a complete liquidation or dissolution of UGI or (b) sale or other disposition of all or substantially all of the assets of UGI other than to a corporation with respect to which, following such sale or disposition, more than fifty percent (50%) of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners,

respectively, of the Outstanding UGI Common Stock and UGI Voting Securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Outstanding UGI Common Stock and UGI Voting Securities, as the case may be, immediately prior to such sale or disposition; or

(v) UGI and its Subsidiaries fail to own more than fifty percent (50%) of the then outstanding shares of common stock of the Company or more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors; or

(vi) Completion by the Company of a reorganization, merger or consolidation (a "Business Combination"), in each case, with respect to which all or substantially all of the individuals and entities who were the respective Beneficial Owners of the Company's outstanding common stock and voting securities immediately prior to such Business Combination do not, following such Business Combination, Beneficially Own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination in substantially the same proportion as their ownership immediately prior to such Business Combination of the Company's outstanding common stock and voting securities, as the case may be; or

(vii) Completion of a complete liquidation or dissolution of the Company or sale or other disposition of all or substantially all of the assets of the Company other than to a corporation with respect to which, following such sale or disposition, more than 50% of, respectively, the then outstanding shares of common stock

and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors is then owned beneficially, directly or indirectly, by all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Company's outstanding common stock and voting securities immediately prior to such sale or disposition in substantially the same proportion as their ownership of the Company's outstanding common stock and voting securities, as the case may be, immediately prior to such sale or disposition.

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

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

(i) any failure of the Company to comply with and satisfy any of the terms of this Agreement;

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

(iii) any involuntary removal of the Employee from the employment grade, compensation level or officer positions which the Employee holds with the Company or, if the Employee is employed by a

Subsidiary, with a Subsidiary, held by him immediately prior to the Change of Control, except in connection with promotions to higher office;

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

(v) any transfer of the Employee, without his express written consent, to a location which is outside the general area in which his principal place of business immediately preceding the Change of Control may be located at such time by more than fifty miles, other than on a temporary basis (less than 12 months); and

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

(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Employee's 62nd birthday.

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

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

(k) "Termination of Employment" shall mean the termination of the Employee's actual employment relationship with the Company.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Employee's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within three years after a Change of Control, the Company shall pay to the Employee, upon the execution of a release, in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to <> times the Employee's Base Compensation, subject to customary employment taxes and deductions.

(b) In the event the Employee's Normal Retirement Date would occur prior to <> months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date

to the Employee's Normal Retirement Date and the denominator of which shall be
<> days.

4. Other Payments.

The payments due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Employee under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates.

5. Trust Fund. UGI sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy obligations under this Agreement. Funding of such trust fund shall be subject to the discretion of the UGI Board of Directors or the Executive Committee of the UGI Board of Directors, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

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

(b) It is the intent of the parties that the Employee not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would

substantially detract from the benefits intended to be extended to the Employee hereunder. Accordingly, the Company shall pay the Employee on demand the amount necessary to reimburse the Employee in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Employee in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Increase in Payments.

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

(b) All determinations to be made under this Section 11 shall be made by Coopers & Lybrand (or, at the Company's option, the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm")), which firm shall provide its determinations and any supporting calculations both to the Company and the Employee within 10 days of either (i) the Change of Control or (ii) the Termination Date, as the case may be. Any such determination by the Accounting Firm shall be binding upon the Company and the Employee. Within five days after the

Accounting Firm's determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Employee such amounts as are then due to the Employee under this Agreement.

(c) In the event that upon any audit by the Internal Revenue Service, or by a state or local taxing authority, of the Payment or Gross-Up Payment, a change is finally determined to be required in the amount of taxes paid by the Employee, appropriate adjustments shall be made under this Agreement such that the net amount which is payable to the Employee after taking into account the provisions of Section 4999 of the Code shall reflect the intent of the parties as expressed in subsection (a) above, in the manner determined by the Accounting Firm.

(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or wilful misconduct of the Accounting Firm, which firm shall provide its determinations and any supporting calculations both to the Company and the Employee within 10 days of either (i) the Change of Control or (ii) the Termination Date, as the case may be. Any such determination by the Accounting Firm shall be binding upon the Company and the Employee.

12. Term of Agreement. The term of this Agreement shall be for five years from the date hereof and shall be automatically renewed for successive one-year periods unless the Company notifies the Employee in writing that this Agreement will not

be renewed at least sixty days prior to the end of the current term; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Employee with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason.

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

14. Notice. All notices and other communications required or permitted hereunder or necessary or convenient in connection herewith shall be in writing

and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service, as follows:

If to the Company, to:

UGI Utilities, Inc.
Green Hills Corporate Center
100 Kachel Boulevard, Suite 400
Reading, PA 19607
Attention: Corporate Secretary

If to the Employee, to:

<>
<>, <> <>

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

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

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed,

modified, extended or terminated except upon written amendment executed by the Employee and the Chairman of the Company. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Employee. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by the Company or the Board.

17. No Right to Continued Employment. Nothing in this Agreement shall be construed as giving the Employee any right to be retained in the employ of the Company.

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

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

20. Remedies Cumulative; No Waiver. No right conferred upon the Employee by this Agreement is intended to be exclusive of any other right or remedy, and

each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Employee in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

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

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

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

ATTEST:
[Seal]

UGI UTILITIES, INC.

Corporate Secretary

By _____
Lon R. Greenberg
Chairman

Witness

<> <>

UGI UTILITIES INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	Year Ended September 30,				
	2003	2002	2001	2000	1999
EARNINGS:					
Earnings before income taxes	\$100,599	\$ 73,665	\$ 79,568	\$ 82,882	\$ 63,139
Interest expense	17,412	16,365	18,724	18,135	17,317
Amortization of debt discount and expense	244	287	264	218	215
Interest component of rental expense	1,434	1,563	1,541	1,318	1,539
	-----	-----	-----	-----	-----
	\$119,689	\$ 91,880	\$100,097	\$102,553	\$ 82,210
	=====	=====	=====	=====	=====
FIXED CHARGES:					
Interest expense	\$ 17,412	\$ 16,365	\$ 18,724	\$ 18,135	\$ 17,317
Amortization of debt discount and expense	244	287	264	218	215
Allowance for funds used during construction (capitalized interest)	7	19	12	17	36
Interest component of rental expense	1,434	1,563	1,541	1,318	1,539
	-----	-----	-----	-----	-----
	\$ 19,097	\$ 18,234	\$ 20,541	\$ 19,688	\$ 19,107
	=====	=====	=====	=====	=====
Ratio of earnings to fixed charges	6.27	5.04	4.87	5.21	4.30
	=====	=====	=====	=====	=====

UGI UTILITIES INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(THOUSANDS OF DOLLARS)

	Year Ended September 30,				
	2003	2002	2001	2000	1999
EARNINGS:					
Earnings before income taxes	\$100,599	\$ 73,665	\$ 79,568	\$ 82,882	\$ 63,139
Interest expense	17,412	16,365	18,724	18,135	17,317
Amortization of debt discount and expense	244	287	264	218	215
Estimated interest component of rental expense	1,434	1,563	1,541	1,318	1,539
	-----	-----	-----	-----	-----
	\$119,689	\$ 91,880	\$100,097	\$102,553	\$ 82,210
	=====	=====	=====	=====	=====
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS:					
Interest expense	\$ 17,412	\$ 16,365	\$ 18,724	\$ 18,135	\$ 17,317
Amortization of debt discount and expense	244	287	264	218	215
Allowance for funds used during construction (capitalized interest)	7	19	12	17	36
Estimated interest component of rental expense	1,434	1,563	1,541	1,318	1,539
Preferred stock dividend requirements	1,163	1,550	1,550	1,550	2,160
Adjustment required to state preferred stock dividend requirements on a pretax basis	753	1,012	995	968	1,304
	-----	-----	-----	-----	-----
	\$ 21,013	\$ 20,796	\$ 23,086	\$ 22,206	\$ 22,571
	=====	=====	=====	=====	=====
Ratio of earnings to combined fixed charges and preferred stock dividends	5.70	4.42	4.34	4.62	3.64
	=====	=====	=====	=====	=====

CODE OF ETHICS
FOR
CHIEF EXECUTIVE OFFICER AND
SENIOR FINANCIAL OFFICERS
OF
UGI UTILITIES, INC.

Introduction

The reputation for integrity of UGI Utilities, Inc. (the "Company") is a valuable asset that is vital to the Company's success. To enhance the Company's ability to maintain its reputation for integrity, the Board of Directors of the Company (the "Board") has adopted this Code of Ethics, which applies to the Company's Chief Executive Officer (the "CEO"), Chief Financial Officer and Principal Accounting Officer (together the "Senior Financial Officers"). This Code of Ethics is designed to give the CEO and Senior Financial Officers a broad understanding of the conduct that we expect from them to protect and enhance our reputation for integrity.

Each employee of the Company is responsible for conducting his or her duties in a manner that demonstrates a commitment to the highest standards of integrity. This integrity is critical to ensure that the Company's business is conducted in an honest and ethical manner and in compliance with the law. The purpose of this Code is to focus the CEO and Senior Financial Officers on areas of ethical risk, help them to recognize and deal with ethical issues, explain the mechanisms available to them to report unethical conduct and foster a culture of honesty and accountability.

Implementation and Oversight of This Code

The Board, acting through its Audit Committee, is ultimately responsible for the implementation of this Code. The Board has designated the Vice President and General Counsel to be the compliance officer (the "Compliance Officer") for the implementation and administration of this Code. Statements in this Code to the effect that certain actions may be taken only with the "Company's approval" mean that the Audit Committee of the Board or the Board of Directors acting through its independent members must give prior written approval before the proposed action may be undertaken. You should feel free to direct questions to the Compliance Officer.

You should read this Code in conjunction with the Company's Code of Business Conduct and Ethics for Directors, Officers and Employees. For simplicity sake, we will refer to both codes together as the "Code." We will ask you to certify on an annual basis that you are in compliance with the Code.

Requests for Waiver of Any Provision of this Code

You must submit any requests for a waiver of any provision of this Code in writing to the Compliance Officer for review. Only the independent members of the Board or the Audit Committee of the Board have the authority to waive any provision of this Code. If a waiver of any provision of this Code is granted to you, the Company must publicly disclose the nature of the granted waiver, including any implicit waiver, your name, the date of the waiver and any other disclosures as and to the extent required by any SEC rule or applicable stock exchange listing standard.

Compliance with Law and Regulations

A variety of laws apply to the Company and its operations, and some laws carry criminal penalties. These laws include, but are not limited to, federal environmental, securities, antitrust and occupational safety laws, and federal and state laws governing the Company's status as a public company. Examples of criminal violations of the law include making false or misleading disclosures in documents filed with the Securities and Exchange Commission (the "SEC"); trading on inside information; stealing, embezzling or misapplying the Company's funds; making a payment for an expressed purpose on the Company's behalf to an individual who intends to use it for a different purpose; or making payments, whether from your funds or the Company's funds, of cash or other items of value that are intended improperly to influence the judgment or actions of political candidates, government officials or businesspersons in connection with any of the Company's activities. The Company will investigate, address and report, as appropriate, violations of law. It is your responsibility to comply with the laws, rules and regulations applicable to you personally as a senior executive of the Company. You cannot delegate that responsibility to another person or to the Company.

Avoiding Actual, Potential or Apparent Conflicts of Interest

The Company requires you to conduct your outside associations and personal business, financial and other relationships in a manner that will avoid any actual, potential or apparent conflict of interest between you and the Company. The term "outside association" refers to any affiliation, association, interest or employment that you have with an entity other than with the Company. It is impractical to set forth rules that cover all situations in which a conflict of interest may arise. The basic factor in all conflict of interest situations is, however, the division of loyalty or the appearance of a division of loyalty, between the Company's best interests and your interests. Guidelines with respect to several of the more sensitive areas in which actual, potential or apparent conflicts of interest are likely to occur are set forth below. We emphasize, however, that the following is not an exhaustive list of problem areas, but rather a guide in applying the Company's basic conflict of interest policy to any situation.

Business Relationships

You may have a conflict of interest if you, a member of your immediate family or your business or financial partner owns or has a substantial direct or indirect investment in an entity with which the Company has or is likely to have a business relationship or with which the Company competes. Investments in small amounts of the stocks or bonds of a publicly held company should not alone give rise to any conflict of interest. The question of when an investment may become so substantial as to possibly affect or appear to affect your judgment is largely dependent on the particular circumstances and must be considered on a case-by-case basis.

A conflict of interest may also arise when you, a member of your immediate family or your business or financial partner holds a position as director, officer, employee or partner of or consultant, broker, finder or intermediary with an entity with which the Company has or is likely to have a business relationship or with which the Company competes or is likely to compete. In addition, a conflict of interest may arise if you, a member of your immediate family or your business or financial partner incurs significant indebtedness to an entity whose business may be affected by your actions on behalf of the Company.

Any associations, interests and business or financial relationships that you have that might cause you to act in ways that are not in the best interests of the Company, or that create the appearance of divided loyalties, will be permitted only with the Company's approval. In some circumstances, a relationship will only be permitted if the proposed transaction is competitive and/or fairly bargained for. Notwithstanding the foregoing, a transaction between the Company and any of your outside associations will be permitted if it is first reported, reviewed and approved in the manner prescribed by the Board or Audit Committee and set forth below.

Acceptance of Gifts

You may not, without the Company's approval, accept, either directly or indirectly, gifts, favors, entertainment or anything else of more than nominal value from persons or entities with which the Company has or is likely to have a business relationship. Payment of expenses for attendance at appropriate business meals and conferences will not ordinarily be considered the receipt of a gratuity under this section. (The Company's Code of Business Conduct and Ethics for Directors, Officers and Employees provides some examples of other permissible gifts and should be consulted for a discussion on this subject.)

Outside Activities/Employment

Unless expressly authorized by the Company, any outside association, including activities with other entities, should not encroach on the time and attention you are expected to devote to your Company duties and responsibilities, adversely affect the quality or quantity of your work product for the Company or entail your use of any Company assets, including its real and personal property, or imply (without the Company's approval) the Company's sponsorship or support. In addition, under no circumstances are you permitted to compete with the Company or take for yourself, your family members or any business or financial partner any business or financial opportunity belonging to the Company that you discover or that is made available to you by virtue of your position with the Company.

Civic/Political Activities

The Company supports your participation in civic, charitable and political activities so long as such participation does not encroach on the time and attention that you are expected to devote to Company duties and responsibilities. Unless the Company expressly sanctions the activity, you are to conduct any such activities in a manner that does not involve the Company or its assets or create an appearance of Company involvement or endorsement.

Reporting Procedure

You must report promptly to the Compliance Officer the existence of any outside association, interest, relationship or activity, as it arises, that actually, potentially or apparently involves a conflict of interest. Failure to report such relationships, activities and interests will be a ground for disciplinary action. The Compliance Officer will notify the Board or Audit Committee of any actual, potential or apparent conflict of interest. You must cooperate fully in the review process by providing all information that the Compliance Officer or the Audit Committee deems necessary to its review.

You must sign annually a statement reflecting your continuing awareness and understanding of this Code, including its conflicts of interest policy. At the same time, you must report either the absence or presence of actual, potential or apparent conflicts of interest, including such conflicts involving others within the Company of which you are aware.

All interests, relationships or participation in transactions disclosed by any employee in accordance with this policy shall be held in confidence unless disclosure is required by law or applicable listing standards or is in the best interests of the Company.

Resolution of Conflicts

In all cases, actual, potential or apparent conflicts of interest must be handled in an ethical manner; in particular, they must be fully disclosed and considered prior to being resolved. The Compliance Officer or, where appropriate, the Audit Committee will handle all questions of actual, potential or apparent conflicts of interest that involve you. Actual, potential or apparent conflicts of interest may be approached in the following ways, among others:

- In the case of an offer of a gift, the appropriate resolution may be for you to accept or reject the gift.
- Where the nature of the conflict of interest is such that you are unable to disclose the details thereof without breaching other confidences, you may, upon notice to the Audit Committee, remove yourself from all meetings, discussions and actions at which such conflict of interest is considered.
- Where you can disclose the details of the conflict of interest, the Audit Committee may determine the proper action on its own or in consultation with the Board.
- Any outside association, interest, relationship or participation in a transaction that is fully disclosed in writing to, and is approved in writing by, the Audit Committee or the Board shall not be deemed to involve a conflict of interest for purposes of this Code.
- When it is concluded that there is an actual, apparent or potential conflict of interest, the Audit Committee or the Board may suspend you from all or some of your duties or

require you to perform other duties with the Company for such period of time as is deemed appropriate or may request that you resign from your position with the Company.

- In the event that the conflict of interest involves an outside association, the Company may permanently cease doing business with the association.

Full, Fair, Accurate and Timely Disclosures by the Company to the Public

Because you participate, directly or indirectly, in the preparation of the financial and other disclosures that the Company makes to the public, including disclosures in its filings with the SEC or by press releases, you must, in addition to complying with all applicable laws, rules and regulations, follow these guidelines:

- Ensure full, fair, timely, accurate and understandable disclosure in the Company's filings with the SEC to the best of your ability.
- Through leadership, including communication, make sure that employees of the Company understand the Company's obligations to the public and under the law with respect to its disclosures.
- Encourage employees to raise questions and concerns regarding the Company's public disclosures and ensure that such questions and concerns are appropriately addressed.
- Provide the Company's directors, employees, consultants and advisors involved in the preparation of the Company's disclosures to the public with information that is accurate, complete, objective, relevant, timely and understandable.
- Act in good faith, responsibly, and with due care, competence and diligence, without misrepresenting material facts or allowing your independent judgment to be compromised by others.
- Ensure that the recording of entries in the Company's books and records is accurate to the best of your knowledge.
- Comply with the Company's disclosure controls and procedures and internal controls and procedures for financial reporting.

Prompt Internal Reporting of Violations of This Code

If you violate or think you have violated any provision of this Code, or if you observe, learn of, or, in good faith, suspect that another person subject to this Code has violated any of its provisions, you must immediately report the actual or suspected violation to the Compliance Officer who will promptly notify the Chairman of the Audit Committee of the Board of such violation. If you report an actual or suspected violation in good faith, the Company may not

subject you to retaliation of any kind. A violation of the requirement to report violations or to cooperate in a Code investigation may result in disciplinary action.

Accountability for Complying With This Code

Reported violations of this Code will be investigated and addressed promptly and the identity of the reporting person treated confidentially to the extent possible. We strive to impose discipline for each Code violation that fits the nature and particular facts of the violation. We generally will issue warnings or letters of reprimand for less significant, first-time violations. Violations of a more serious nature may result in suspension without pay, demotion, loss or reduction of bonus or option awards, or any combination of such disciplinary violations. Termination of employment generally is reserved for violations amounting to a breach of trust, such as fraud or theft, or for cases where a person has engaged in multiple violations.

The SEC treats violations of the Code that go unaddressed as implicit waivers of the Code. Accordingly, any violation that is discovered and not addressed will have to be disclosed in accordance with the rules and regulations of the SEC or applicable stock exchange listing standards. In such cases, the SEC's rules currently require disclosure of the nature of any violation, the date of the violation and the name of the person who committed the violation. Such disclosure could be harmful to the Company. Moreover, depending on the nature of the violation, the violator may be dismissed or her or his duties and responsibilities with the Company changed significantly.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-4288 and 333-72540) of UGI Utilities, Inc. of our report dated November 17, 2003 relating to the financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Philadelphia, Pennsylvania
December 23, 2003

CERTIFICATIONS

I, Robert J. Chaney, certify that:

1. I have reviewed this annual report on Form 10-K of UGI Utilities, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(d)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 16, 2003

/s/ Robert J. Chaney

Robert J. Chaney
President and Chief Executive Officer of
UGI Utilities, Inc.

I, John C. Barney, certify that:

1. I have reviewed this annual report on Form 10-K of UGI Utilities, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(d)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 16, 2003

/s/ John C. Barney

John C. Barney
Senior Vice President - Finance and
Chief Financial Officer of
UGI Utilities, Inc.

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
RELATING TO A PERIODIC REPORT CONTAINING FINANCIAL STATEMENTS

I, Robert J. Chaney, Chief Executive Officer, and I, John C. Barney,
Chief Financial Officer, of UGI Utilities, Inc., a Pennsylvania corporation (the
"Company"), hereby certify that:

- (1) The Company's periodic report on Form 10-K for the period
ended September 30, 2003 (the "Form 10-K") fully complies with
the requirements of Section 13(a) of the Securities Exchange
Act of 1934, as amended; and
- (2) The information contained in the Form 10-K fairly presents, in
all material respects, the financial condition and results of
operations of the Company.

* * *

CHIEF EXECUTIVE OFFICER

CHIEF FINANCIAL OFFICER

/s/ Robert J. Chaney

/s/ John C. Barney

- -----
Robert J. Chaney

- -----
John C. Barney

Date: December 16, 2003

Date: December 16, 2003

A signed original of this written statement required by Section 906 has
been provided to UGI Utilities, Inc. and will be retained by UGI
Utilities, Inc. and furnished to the Securities and Exchange Commission
or its staff upon request.