SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 1995 — Commission File number 1-6659

PHILADELPHIA SUBURBAN CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	23-1702594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
762 Lancaster Avenue, Bryn Mawr, Pennsylvania	19010
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (610)-527-8000

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

Title of each class	Name of each exchange on which registered
Common stock, par value $.50 per share	New York Stock Exchange, Inc. Philadelphia Stock Exchange Inc.

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

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

Yes x No

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 1996. $231,749,555

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by March 1, 1996, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 1, 1996. 12,238,871

Documents incorporated by reference

(1) Portions of registrant's 1995 Annual Report to shareholders have been incorporated by reference into Parts I and II of this Form 10-K Report.

(2) Portions of the Proxy Statement, relative to the May 16, 1996 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K

Report.

PART I

Item 1. Business

Philadelphia Suburban Corporation ("PSC" or the "Registrant"), a Pennsylvania corporation, was incorporated in 1968. The information appearing in "Management's Discussion and Analysis" from the portions of PSC's 1995 Annual Report to shareholders filed as Exhibit 13.3 to this Form 10-K Report is incorporated by reference herein.

The business of PSC is conducted almost entirely through its subsidiary Philadelphia Suburban Water Company ("PSW"), a regulated public utility. PSW supplies water to 264,865 residential, commercial, industrial and public customers. PSW's contiguous service territory is approximately 406 square miles, comprising a large portion of the suburban area west and north of the City of Philadelphia. This territory is primarily residential in nature and is completely metered, except for fire hydrant service. Based on the 1990 census, PSW estimates that the total number of persons currently served is approximately 850,000. Excluding the customers that were added at the time of acquisitions in the last three years, customer accounts have grown at an average rate of approximately .6% per annum for the last three years.

Operating revenues during the twelve months ended December 31, 1995 were derived approximately as follows:

67.1%	from residential customers
20.6%	from commercial customers
4.3%	from industrial customers
1.1%	from public customers
6.4%	from fire protection services
.5%	from sales to other water utilities and miscellaneous customers
100.0%	

PSW has completed ten water system acquisitions in the last four years. In May 1995, PSW purchased the franchise rights and the water utility assets of Media Borough ("Media"). The Media system covers a 23 square mile service area contiguous to PSW's service territory. In addition, PSW purchased the franchise rights and the water utility assets of four smaller water systems in 1995 that cover a combined service territory of four square miles. The annual revenues from these systems approximate $4,750,000, and related revenues included in the consolidated financial statements were $2,820,000 for 1995.

In December 1994, PSW acquired the franchise rights and the water utility assets of two privately owned water companies. In December 1993, PSW acquired the water utility assets and franchise rights of the Borough of Malvern. In December 1992, PSW acquired the water utility assets of the West Whiteland Township and the Uwchlan Township Municipal Authority water systems. Combined, the five systems acquired before 1995 added 43 square miles of service territory adjacent to PSW's existing service territory and had revenues of approximately $2,731,000 in 1995.

PSW has also entered into preliminary agreements to acquire six additional water systems for a combined purchase price of approximately $20,600,000, including, subject to final negotiations, the issuance of up to $5,000,000 of the Company's preferred stock. These systems are adjacent or near to PSW's service territory. The combined annual revenues of these systems are approximately $2,900,000. In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to its service territory.

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

Revenues from water sales (000's omitted)	1995	1994	1993
Residential	$ 78,082	$ 69,545	$ 66,183
Commercial	24,016	23,020	19,970
Industrial	4,990	5,175	4,568
Public	1,252	1,257	1,027
Fire protection	7,421	7,054	5,912
Other	617	848	1,095
Tax Surcharge (credit)	(505)	(97)	706
Total	$115,873	$106,802	$ 99,461

Water sales (million gallons)	1995	1994	1993
Residential	17,610	16,577	16,729
Commercial	7,983	7,804	7,441
Industrial	1,919	2,085	1,985
Public	335	324	294
Fire protection - metered	51	55	60
Other	124	261	401
Total	28,022	27,106	26,910

System delivery by source (million gallons)	1995	1994	1993
Surface (including Upper Merion reservoir)	26,904	25,386	24,635
Wells	4,830	5,037	5,466
Purchased	2,077	2,356	2,446
Total	33,811	32,779	32,547

Number of metered customers (end of year)	1995	1994	1993
Residential	248,500	234,624	232,684
Commercial	11,725	10,777	10,720
Industrial	848	833	832
Public	775	688	696
Fire protection	3,006	2,596	2,248
Other	11	15	15
Total	264,865	249,533	247,195

	1995	1994	1993
Average consumption per customer in gallons	109,084	109,001	110,368

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

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

PSW's surface supplies are supplemented by 38 wells. PSW also has interconnections with: the Chester Water Authority, which permits PSW to withdraw up to 6.4 million gallons per day ("mgd"); the Bucks County Water and Sewer Authority, which provides for a supply of up to 7.0 mgd; and the West Chester Area Municipal Authority, which provides up to 1.0 mgd. Agreements regarding the first two interconnections require PSW to purchase certain minimum amounts of water. PSW believes it possesses all the necessary permits to obtain its supply of water from the sources indicated above.

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

Surface supplies	93.8 mgd
Upper Merion Reservoir	7.2
Wells	15.4
Purchased supplies	8.2
Total	124.6 mgd

During periods of normal precipitation, the safe yield is more than the minimum shown above. Under normal operating conditions, PSW can deliver a maximum of 144 mgd to its distribution system for short periods of time. The average daily sendout for 1995, 1994 and 1993 was 92.6, 89.8 and 89.1 mgd, respectively.

The maximum demand ever placed upon PSW's facilities for one month occurred during August 1995, when sendout averaged 109.3 mgd. The peak day of record occurred during July 1995 when water use reached 121.8 mgd.

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

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

Water shortages. The Delaware River Basin, which is the drainage area of the Delaware River from New York State to Delaware, periodically experiences water shortages during the summer months. To the extent that the reservoirs in the upper part of the Basin are affected by a lack of precipitation, the Delaware River Basin Commission (the "DRBC") may impose either voluntary or mandatory water use restrictions on portions or all of the Basin. The Commonwealth of Pennsylvania (the "Commonwealth") also has the authority to impose similar restrictions on a county-by-county basis.

PSW's raw water supplies have been adequate to meet customer demand for the past five years principally because of its five impounding reservoirs. However, PSW's customers may be required to comply with the Commonwealth and DRBC water use restrictions, even if PSW's supplies are adequate.

In September 1995, the Governor of the Commonwealth declared a drought emergency in the counties served by PSW. The drought emergency imposed a mandatory ban on all nonessential water usage by PSW's customers. Because the order was issued toward the end of the summer months, when nonessential and recreational use of water has traditionally declined, the restriction did not have a significant impact on PSW revenues. The drought emergency was lifted by the end of 1995. Throughout the drought emergency, PSW maintained adequate storage levels of treated water and had sufficient quantities of raw water. No other drought restrictions were imposed by the Commonwealth or DRBC in the last three years.

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

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

In 1993, the PUC initiated a rulemaking procedure intended to facilitate the development of practical standards by which water mains should be extended to "bona fide service applicants", typically existing homes or businesses in need of a reliable public water supply. In December 1995, the PUC issued a final rulemaking, reflecting the position that the primary costs of such extensions should be justified by anticipated revenues. Generally, construction costs beyond those justified by anticipated revenues must be borne by the applicant. Under the proposal, PSW is required to invest approximately $4,000 per customer in a main extension prior to requiring any customer contribution. The Commission selected this threshold because revenues from an average customer offset the interest, depreciation and incremental operating expense associated with the investment.

Water Quality & Environmental Issues. PSW is subject to regulation of water quality by the U.S. Environmental Protection Agency ("EPA") under the Federal Safe Drinking Water Act (the "SDWA") and by the Pennsylvania Department of Environmental Protection ("DEP") under the Pennsylvania Safe Drinking Water Act. The SDWA provides for the establishment of minimum water quality standards, as well as governmental authority to specify the type of treatment process to be used for public drinking water. PSW is presently in compliance with all standards and treatment requirements promulgated to date.

The EPA has an ongoing directive to issue additional regulations under the SDWA. The directive was clarified in 1986 when Congress amended the SDWA to require, among other revisions, disinfection of all drinking water, additional maximum contaminant level ("MCL") specifications, and filtration of all surface water supplies. PSW has already installed the necessary equipment to provide for the disinfection of the drinking water throughout the system and is monitoring for the additional specified contaminants. PSW's surface water supplies are filtered.

In addition, the 1986 SDWA Amendments require the EPA to promulgate MCLs for many chemicals not previously regulated. EPA has to date promulgated MCLs for numerous additional contaminants and is required to mandate further MCLs every three years. Promulgation of additional MCLs by the EPA in the future may require PSW to change some of its treatment techniques, however, PSW believes that the currently proposed MCLs will not have a significant impact on its capital requirements or operating expenses. A bill amending and reauthorizing the SDWA has been passed by the United States Senate and is pending in the United States House of Representatives. If the bill passed by the Senate becomes law, it would direct the EPA to establish standards based upon occurrence and health risks and establishes a schedule for many standards which were proposed previously. The SWDA reauthorization package includes specific provisions for radon, arsenic and sulfates. The reauthorization of SWDA is not expected to have a material impact on PSW's operations or financial condition. PSW may, in the future, have to change its method of treating drinking water at certain of its sources of supply if additional regulations become effective.

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

On January 1, 1993, new federal regulations ("Phase II") became effective for certain volatile organics, herbicides, pesticides and inorganic parameters. All required Phase II monitoring was completed in 1995. In the few cases where Phase II contaminants were detected, concentrations were below MCLs. Future monitoring will be required, but no major treatment modifications are anticipated as a result of these regulations.

The EPA is expected to issue, in 1996, the first rule of a three rule package addressing Disinfection By-Products ("DBP"). DBP's are chemicals formed during the drinking water treatment process. The first rule is an Information Collection Rule designed to collect data to be used in developing the other two rulemakings.

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

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

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

Employee Relations

As of December 31, 1995, the Registrant employed a total of 535 persons. Hourly employees of PSW are represented by the International Brotherhood of Firemen and Oilers, Local No. 473. The contract with the union was renewed on December 1, 1994 for a three-year period. Management considers its employee relations to be satisfactory.

Item 2. Properties.

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

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

Location	No. of Buildings	Description	Square Feet Floor Area
Pennsylvania	6	Office & warehouse	174,185
Pennsylvania	16	Pumping stations and treatment buildings	169,200
Pennsylvania	22	Well stations	App. 600 ea.
Pennsylvania	16	Well stations	App. 150 ea.
Pennsylvania	42	Booster stations	App. 1,100 ea.

In addition, PSW also owns 52 storage facilities for treated water throughout its service territory with a combined capacity of 147.0 million gallons and five surface water impounding reservoirs. The water utility also owns approximately 3,180 miles of transmission and distribution mains, has 264,865 active metered services and 12,150 fire hydrants.

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

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

Item 3. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant. As previously reported, there were two proceedings which arose from a fire in a warehouse in Newark, New Jersey, where hazardous substances were alleged to have been stored. PSW was involved or potentially involved because it was alleged that, out of more than 2,000 drums of material at the warehouse, one of the drums had originated from PSW. One of these proceedings has been dismissed and the other has been settled with PSW paying a nominal amount.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1995.

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

PART II

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

The Company's common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 1, 1996, there were approximately 12,265 holders of record of the Company's common stock.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
			1995		
Earned revenues	$25,712	$28,827	$32,355	$30,150	$117,044
Operating expenses	11,766	12,357	13,793	13,786	51,702
Income, continuing operations	3,315	4,659	5,732	4,324	18,030
Income per share, continuing operations	.28	.39	.48	.35	1.50
Income, discontinued operations	--	--	--	370	370
Income per share, discontinued operations	--	--	--	.03	.03
Net income	3,315	4,659	5,732	4,694	18,400
Net income per share	.28	.39	.48	.38	1.53
Dividend paid per share	.28	.28	.29	.29	1.14
Price range of common stock					
- high	18.25	18.75	18.63	21.50	21.50
- low	17.38	17.63	17.63	18.00	17.38
			1994		
Earned revenues	$24,849	$26,730	$28,849	$28,208	$108,636
Operating expenses	12,056	12,001	12,511	13,728	50,296
Net income	2,949	4,035	4,897	3,757	15,638
Net income per share	.26	.35	.42	.32	1.35
Dividend paid per share	.27	.27	.28	.28	1.10
Price range of common stock					
- high	19.63	18.50	19.38	18.75	19.63
- low	17.38	17.13	17.50	17.25	17.13

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

	Cash dividend per share	Income per share from continuing operations	Payout ratio
1991	$1.00	$1.29	78%
1992	1.04	1.23	85
1993	1.07	1.27	84
1994	1.10	1.35	81
1995	1.14	1.50	76

Dividends have averaged approximately 81% of income from continuing operations during this period. In August 1995, the annual dividend increased by 3.6% to $1.16 beginning with the September 1995 dividend.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of the Company's 1995 Annual Report to shareholders filed as Exhibit 13.3 to this Form 10-K Report is incorporated by reference herein.

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

The information appearing in the section captioned "Management's Discussion and Analysis" from the portions of the Company's 1995 Annual Report to shareholders filed as Exhibit 13.3 to this Form 10-K Report is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" and "Notes to Consolidated Financial Statements" from the portions of the Company's 1995 Annual Report to shareholders filed as Exhibit 13.3 to this Form 10-K Report is incorporated by reference herein. Also, the information appearing in the section captioned "Reports on Financial Statements" from the portions of the

Company's 1995 Annual Report to shareholders filed as Exhibit 13.3 to this Form 10-K Report is incorporated by reference herein.

Item 9. Disagreements on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors of the Registrant

The information appearing in the section captioned "Information Regarding Nominees and Directors" of the Proxy Statement relating to the May 16, 1996, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

Executive Officers of the Registrant

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

Name	Age	Position with the Registrant and date of election (1)
Nicholas DeBenedictis	50	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Philadelphia Suburban Water Company (July 1992 to Present); President, Philadelphia Suburban Water Company (February 1995 to present) (2)
Richard R. Riegler	49	Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to present) (3)
Roy H. Stahl	43	Senior Vice President and General Counsel (April 1991 to present) (4)
Michael P. Graham	47	Senior Vice President - Finance and Treasurer (March 1993 to present) (5)
Morrison Coulter	59	Senior Vice President - Production, Philadelphia Suburban Water Company (February 1996 to present); Vice President - Production, Philadelphia Suburban Water Company (April 1989 to February 1996) (6)

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

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

Philadelphia Electric Company from April 1989 to June 1992.

(3) Mr. Riegler was Chief Engineer of Philadelphia Suburban Water Company from 1982 to 1984. He then served as Vice President and Chief Engineer from 1984 to 1986 and Vice President of Operations from 1986 to 1989.

(4) From January 1984 to August 1985, Mr. Stahl was Corporate Counsel, from August 1985 to May 1988 he was Vice President - Administration and Corporate Counsel of the Registrant, and from May 1988 to April 1991 he was Vice President and General Counsel of the Registrant.

(5) Mr. Graham was Controller of the Company from 1984 to September 1990, and from September 1990 to May 1991 he was Chief Financial Officer and Treasurer. From May 1991 to March 1993, Mr. Graham was Vice President - Finance and Treasurer.

(6) Mr. Coulter was Superintendent of Pumping Facilities from 1971 to 1982. From 1982 to 1987 he served as Manager - Electrical/Mechanical Department and from 1987 to 1989 he was Assistant Vice President - Production.

Item 11. Management Remuneration

The information appearing in the sections captioned "Compensation of Directors and Executive Officers" of the Proxy Statement relating to the May 16, 1996, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Ownership of Common Stock" of the Proxy Statement relating to the May 16, 1996, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Other Remuneration and Certain Transactions" of the Proxy Statement relating to the May 16, 1996, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

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

Management's Report

Independent Auditors' Report

Consolidated Balance Sheets - December 31, 1995 and 1994

Consolidated Statements of Income - 1995, 1994 and 1993

Consolidated Statements of Cash Flow - 1995, 1994, and 1993

Notes to Consolidated Financial Statements

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

Reports on Form 8-K. The Company filed no report on Form 8-K during the quarter ended December 31, 1995.

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

EXHIBIT INDEX

Exhibit No.		Page No.
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	--
3.2	By-Laws, as amended (1) (Exhibit 3.2)	--
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities(now First Pennsylvania Bank, N.A.), as Trustee, with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 (2) (Exhibits 4.1 through 4.16)	--
4.2	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank (East) National Association dated as of February 16, 1990 (3) (Exhibit 4.3)	--
4.3	First Amendment to Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank N.A. dated as of September 1, 1992 (1) (Exhibit 4.3)	--
4.4	Preferred Stock Agreement between Philadelphia Suburban Water Company and Provident Life and Accident Insurance Company dated as of January 1, 1991 (3) (Exhibit 4.4)	--
4.5	Indenture dated as of July 1, 1988 between Philadelphia Suburban Corporation and the Philadelphia National Bank, as Trustee. (4) (Exhibit 4)	--
4.6	Form of Rights Agreement, dated as of February 19, 1988, between Philadelphia Suburban Corporation and Mellon Bank (East) National Association, as amended by Amendment No. 1. (5) (Exhibit 1)	--
4.7	Agreement to furnish copies of other long-term debt instruments (1) (Exhibit 4.7)	--
4.8	Twenty-first Supplemental Indenture dated as of August 1, 1985 (6) (Exhibit 4.2)	--
4.9	Twenty-second Supplemental Indenture dated as of April 1, 1986 (7) (Exhibit 4.3)	--
4.10	Twenty-third Supplemental Indenture dated as of April 1, 1987 (8) (Exhibit 4.4)	--
4.11	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (9) (Exhibit 4.5)	--
4.12	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (10) (Exhibit 4.6)	--

Exhibit No.		Page No.
4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	--
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	--
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (12) (Exhibit 4.15)	--
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity Bank, N.A. and Meridian Bank, N.A. dated as of March 17, 1994 (12) (Exhibit 4.16)	--
4.17	Twenty-Ninth Supplemental Indenture dated as of March 30, 1995 (14) (Exhibit 4.17)	--
4.18	Thirtieth Supplemental Indenture dated as of August 15, 1995 (15) (Exhibit 4.18)	--
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	--
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	--
10.3	Executive Incentive Award Plan, as amended March 21, 1989 and February 6, 1990* (10) (Exhibit 10.3)	--
10.4	Excess Benefit Plan for Salaried Employees, effective December 1, 1989* (10) (Exhibit 10.4)	--
10.5	Supplemental Executive Retirement Plan, effective December 1, 1989* (10) (Exhibit 10.5)	--
10.6	Supplemental Executive Retirement Plan, effective March 15, 1992* (1) (Exhibit 10.6)	--
10.7	1993 Incentive Compensation Plan* (1) (Exhibit 10.7)	--
10.8	Employment letter agreement with Mr. Nicholas DeBenedictis* (1) (Exhibit 10.8)	--
10.9	1994 Incentive Compensation Program* (12) (Exhibit 10.9)	--
10.10	1994 Equity Compensation Plan, as amended by Amendment 1994-1*	20
10.11	1995 Incentive Compensation Plan* (13) (Exhibit 10.11)	--
10.12	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (14) (Exhibit 10.12)	--

Exhibit No.		Page No.
10.13	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker,	--

	Incorporated dated August 24, 1995 (15) (Exhibit 10.13)	
10.14	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (15) (Exhibit 10.14)	--
10.15	1996 Annual Cash Incentive Compensation Plan*	32
13.1	Selected portions of Annual Report to shareholders for the year ended December 31, 1993 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993 (12) (Exhibit 13.1)	--
13.2	Selected portions of Annual Report to shareholders for the year ended December 31, 1994 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1994 (13) (Exhibit 13.2)	--
13.3	Selected portions of Annual Report to shareholders for the year ended December 31, 1995 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1995	37
21.	Subsidiaries of Philadelphia Suburban Corporation	72
23.	Consent of Independent Auditors	73
24.	Power of Attorney (set forth as a part of this report)	18
27.	Financial Data Schedule	74

- Notes -

Documents Incorporated by Reference

(1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992

(2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.

(3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1990.

(4) Filed as Exhibit 4 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on June 14, 1988.

(5) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1988, with respect to the New York Stock Exchange, and on November 9, 1988, with respect to the Philadelphia Stock Exchange.

(6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.

(7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.

(8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.

(9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.

(10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.

(11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.

(12) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.

(13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1994.

(14) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.

(15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

* Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

PHILADELPHIA SUBURBAN CORPORATION

By /s/ Nicholas DeBenedictis

Nicholas DeBenedictis
President and Chairman

Date: March 25, 1996

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

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

John H. Austin, Jr.	John W. Boyer, Jr.
John H. Austin, Jr. Director	John W. Boyer, Jr. Director
Mary C. Carroll	Nicholas DeBenedictis
Mary C. Carroll Director	Nicholas DeBenedictis President and Chairman (principal executive officer) and Director
G. Fred DiBona, Jr.	Claudio Elia
G. Fred DiBona, Jr. Director	Claudio Elia Director
Richard H. Glanton	Michael P. Graham
Richard H. Glanton	Michael P. Graham

Director

Senior Vice President-Finance and Treasurer (principal financial and accounting officer)

Joseph C. Ladd

Joseph C. Ladd
Director

John F. McCaughan

John F. McCaughan
Director

Harvey J. Wilson

Harvey J. Wilson
Director

EXHIBIT 10.10

PHILADELPHIA SUBURBAN CORPORATION
1994 EQUITY COMPENSATION PLAN

1. Purpose

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

2. Administration

This Plan shall be administered by a Committee (the "Committee") of the Board of Directors of the Corporation. The Committee shall consist of three or more of those members of the Board of Directors who are not eligible, and for at least one year prior to their appointment were not eligible, to receive discretionary grants under the Plan or any other plan of the Corporation or any of its affiliates entitling the participants therein to acquire stock, stock options, stock appreciation rights or dividend equivalents of the Corporation or any of its affiliates; provided, however, that such members shall be eligible for stock grants pursuant to the provisions of Section 7(f).

From time to time the Committee or the Board of Directors may make grants, subject to the terms of the Plan, with respect to such number of shares of Common Stock of the Corporation as the Committee or the Board of Directors, each acting in its sole discretion, may determine. All references to the Committee hereunder shall also mean the Board of Directors when acting pursuant to its authority to make grants under the Plan. Non-employee Directors, as defined below, may only receive stock grants pursuant to the provisions of Section 7(f).

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

3. Grants

Pursuant to the terms of the Plan, the Committee shall have the authority to grant stock options to officers and other key employees and key consultants and restricted stock and dividend equivalents to officers and other key employees; provided, however, that Non-employee Directors, as defined below, may receive stock grants in accordance with Section 7(f) (hereinafter collectively referred to as the "Grants"). All Grants shall be subject to the terms and conditions set forth herein and to those other terms and conditions consistent with this Plan as the Committee deems appropriate and as are specified in writing by the Committee in the agreement described in Section 9 of the Plan (the "Agreement"). Grants under a particular Section of the Plan need not be uniform as among the grantees and Grants under two or more Sections of the Plan may be combined in one instrument.

4. Shares Subject to the Plan

Subject to adjustment as provided in Section 15, the maximum aggregate number of shares of the Common Stock of the Corporation that may be issued or transferred under the Plan shall be 450,000 shares. The maximum number of shares of Common Stock that may be issued or transferred under the Plan subject to restricted stock grants is 25,000 shares of Common Stock. Shares deliverable under the Plan may be authorized and unissued shares or treasury shares, as the Committee may from time to time determine. Shares of Common Stock related to the unexercised or undistributed portion of any terminated, expired or forfeited Grant for which no material benefit was received by a grantee also may be made available for distribution in connection with future Grants under the Plan.

5. Eligibility

Only officers, key employees, members of the Board of Directors who are not employed in any capacity by the Corporation (hereinafter referred to as 'Non-employee Directors') and key consultants of the Corporation and its subsidiaries shall be eligible for Grants under the Plan; provided, however, that Grants to Non-employee Directors shall be made only in accordance with Section 7(f). The term "subsidiaries" shall mean any corporation in an unbroken chain of corporations beginning with the Corporation, if at the time of the Grant, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

6. Granting of Options

The Committee may, from time to time, grant stock options to eligible officers and other key employees and shall designate options at the time of grant as either "incentive stock options" intended to qualify as such under section 422 of the Internal Revenue Code of 1986, as from time to time amended or any successor statute of similar purpose (the "Code"), or "nonqualified stock

options", which options are not intended to so qualify. The Committee may, from time to time, grant nonqualified stock options to key consultants. Except as hereinafter provided, options granted pursuant to the Plan shall be subject to the following terms and conditions:

(a) Price

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

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

(b) Terms of Options

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

The Committee shall determine the date on which each option shall become exercisable and may provide that an option shall become exercisable in installments. The shares comprising each installment may be purchased in whole or in part at any time after such installment becomes exercisable. The Committee may, in its sole discretion, accelerate the time at which any option may be exercised in whole or in part. Notwithstanding any determinations by the Committee regarding the exercise period of any option, all outstanding options shall become immediately exercisable upon a Change of Control of the Corporation (as defined herein).

(c) Termination of Employment

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

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

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

(d) Limits on Incentive Stock Options

Each Grant of an incentive stock option shall provide that it (i) is not transferable by the grantee otherwise than by will or the laws of descent and distribution or, if permitted under Rule 16b-3 of the Securities Exchange Act of 1934 (the "Exchange Act") and if permitted in any specific case by the Committee in its sole discretion, pursuant to a qualified domestic relations

order as defined under the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or the rules thereunder, and (ii) is exercisable, during the grantee's lifetime, only by the grantee and that the aggregate fair market value of the Common Stock on the date of the Grant with respect to which incentive stock options are exercisable for the first time by a grantee during any calendar year under the Plan and under any other stock option plan of the Corporation shall not exceed the limitation set forth in section 422(d) of the Code. An incentive stock option shall not be granted to any grantee who, at the time of grant, owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation or subsidiary of the Corporation, unless the exercise price of the incentive stock option is no less than 110% of the fair market value per share on the date of grant and the term of the incentive stock option is not more than five years. Unless a grantee could otherwise transfer Common Stock issued pursuant to an incentive stock option granted hereunder without incurring liability under section 16(b) of the Exchange Act, at least six months must elapse from the date of acquisition of an incentive stock option to the date of disposition of the Common Stock issued upon exercise of such option.

7. Restricted Stock Grants

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

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

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

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

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

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

(f) Stock grants to Non-employee Directors. Effective January 1, 1995, as of the first day of the month following the Corporation's annual meeting of shareholders, each Non-employee Director shall receive a grant of 200 shares of Common Stock. Such shares shall not be sold for 6 months following the date of grant. No other restrictions shall apply to such shares. Notwithstanding any other provision of the Plan, this Section 7(f) may not be amended more than once every 12 months, except for amendments necessary to conform the Plan to changes of the provisions of, or the regulations relating to, the Code.

8. Dividend Equivalents

The Committee may grant dividend equivalents to eligible officers and other key employees either alone or in conjunction with all or part of any option granted under the Plan. A dividend equivalent shall be equal to the dividend payable on a share of Common Stock of the Corporation. The amount of dividend equivalents for any grantee (the "Dividend Equivalent Amount") is determined by multiplying the number of dividend equivalents subject to the Grant by the per-share cash dividend, or the per-share fair market value (as determined by the Committee) of any dividend in other than cash, paid by the Corporation on each record date for the payment of a dividend during the period described in Section 8(a).

(a) Amount of Dividend Equivalent Credited

The Corporation shall credit to an account for each grantee maintained by the Corporation in its books and records on each record date, from the date of grant until the earlier of the date of (i) the end of the applicable accumulation period designated by the Committee at the time of grant, (ii) the date of the termination of employment for any reason (including retirement), other than total disability (as defined in section 22(e)(3) of the Code) or death of the grantee, or as otherwise determined by the Committee, in its sole discretion, at the time of a grantee's termination of employment or (iii) the

end of a period of four years from the date of grant, that portion of the Dividend Equivalent Amount for each such grantee attributable to each record date. The Corporation shall maintain in its books and records separate accounts which identify each grantee's Dividend Equivalent Amount. Except as set forth in Section 8(e) below, no interest shall be credited to any such account.

(b) Payment of Credited Dividend Equivalents

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

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

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

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

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

(c) Timing of Payment of Dividend Equivalents

Except as otherwise determined by the Committee in the event of a grantee's termination from employment prior to the end of the applicable Performance Period, no payments of the Dividend Equivalent Amount shall be made until the end of the applicable Performance Period and no payments shall be made to any grantee whose employment by the Corporation or a subsidiary terminates prior to the end of the applicable Performance Period for any reason other than retirement under the Corporation's or a subsidiary's retirement plan, death or total disability (as defined in section 22(e)(3) of the Code). Subject to Section 8(b)(iv), as soon as practicable after the end of such Performance

Period, unless a grantee shall have made an election under Section 8(f) to defer receipt of any portion of such amount, a grantee shall receive 100% of the Dividend Equivalent Amount payable to him. Notwithstanding the foregoing, upon a Change of Control of the Corporation, any Dividend Equivalent Amount or portion thereof, which has not, prior to such date, been paid to the grantee or forfeited shall immediately become payable to the grantee without regard to whether the applicable Performance Period has ended.

(d) Form of Payment. The Committee shall have the sole discretion to determine whether the Corporation's obligation in respect of the payment of a Dividend Equivalent Amount shall be paid solely in credits to be applied toward payment of the option price under then exercisable options, solely in cash or partly in such credits and partly in cash.

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

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

9. Agreement with Grantees

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

10. Transferability of Grants

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

11. Funding of the Plan

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

12. Rights of Grantees

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

13. Withholding of Taxes

The Corporation shall have the right to deduct from all Grants paid in cash any federal, state or local taxes required by law to be withheld with respect to such cash awards. The grantee or other person receiving such shares shall be required to pay to the Corporation the amount of any such taxes which the Corporation is required to withhold with respect to such Grants. With respect to Grants of restricted stock or nonqualified stock options, the Corporation shall have the right to require that the grantee make such provision, or furnish the Corporation such authorization as may be necessary or desirable so that the Corporation may satisfy its obligation, under applicable income tax laws, to withhold for income or other taxes due upon or incident to such restricted stock or the exercise of such nonqualified stock options.

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

14. Listing and Registration

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

15. Adjustment of and Changes in Common Stock of the Corporation

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

16. Rights of Grantees

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

17. Change of Control of the Corporation

As used herein, a "Change of Control" shall be deemed to have taken place if (i) any Person (including any individual, firm, corporation, partnership or other entity except the Corporation or any employee benefit plan of the Corporation or of any Affiliate or Associate, both as defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, any Person or entity organized, appointed or established by the Corporation for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the beneficial owner in the aggregate of 20% or more of the Common Stock of the Corporation then outstanding or (ii) during any twenty-four month period, individuals who at the beginning of such period constituted the Board of Directors cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by the Corporation's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period. Notwithstanding the foregoing, a Change in Control shall not be deemed to have taken place under clause (i) of the immediately preceding sentence if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Corporation then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Corporation, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (vi) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A.ss.2543(b)) as in effect on the date of adoption of the Plan.

18. Amendment and Termination

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

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

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

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

19. Compliance with Law

The Plan, the exercise of Grants and the obligations of the Corporation to issue or transfer shares of Common Stock under Grants shall be subject to all applicable laws, including any applicable federal or Pennsylvania state law, and to approvals by a governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, it is the intent of the Corporation that the Plan and all transactions under the Plan comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange

Act. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payments to grantees. The Committee may, in its sole discretion, agree to limit its authority under this Section.

20. Effective Date of the Plan

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

EXHIBIT 10.15

PHILADELPHIA SUBURBAN CORPORATION
PHILADELPHIA SUBURBAN WATER COMPANY
1996 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- During the first quarter of 1989, the Company and its compensation consultant conducted a feasibility study to determine whether the Company should implement an incentive compensation plan. The study was prompted by the positive experience of other investor-owned water companies and PSC's experience with incentive compensation.

- The study included interviews with PSWC and PSC executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors feel it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).

- The Plan has two components - a Management Incentive Program and an Employee Recognition Program.

- The Plan is designed to provide an appropriate incentive to the officers and managers of the Company. The 1996 Management Incentive Program will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries, except Utility & Municipal Services, Inc., which is covered by a separate incentive bonus arrangement based on the profitability of that subsidiary.

MANAGEMENT INCENTIVE PROGRAM

- Performance Measures

    - Annual incentive bonus awards are calculated by multiplying an individual's Target Bonus by a Company Rating factor based on the Company's performance and an Individual Rating factor based on the individual employee's performance.

      The approach of having a plan tied to the Company's income performance is appropriate as the participants' assume some of the same risks and rewards as the shareholders who are investing in the Company and making its capital construction program possible. Customers also benefit from the Company's employees' objectives being met as improvements in performance are accomplished by controlling costs, improving efficiencies and enhancing customer service. For these reasons, future rate relief should be lessened and less frequent, which directly benefits all customers.

    - The Company's actual after-tax net income from continuing operations relative to the annual budget will be the primary measure for the Company's performance. Each year a "Target Net Income" level will be established. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 1996, the Target Net Income will exclude the impact of adverse PUC or court rulings on FAS 106, the effect of any unbudgeted extraordinary gains or losses, changes in accounting principles, changes in tax rates and any gains or losses related to the discontinued operations.

    - Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the

Target Net Income. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target Net Income for the year. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income.

-- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation. Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity and enhancing customer service. Each objective has specific performance measures that are used to determine the level of achievement for each objective.

o Participation

-- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 50 percent of salary depending on duties and responsibilities.

-- Actual bonuses may range from 0, if the Company's financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 75 points), to 187.5 percent if performance -- both Company and individual -- is rated at the maximum.

o Company Performance

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

	Percent of 1996 Plan	Company Rating
Threshold.............	90%	0%
	90	50
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan..................	100	100
	105	110
	110	125

-- The actual Company Rating should be calculated by interpolation between the points shown in the table above.

-- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Rating for purposes of this Plan.

- Individual Performance

  - Individual performance will be measured on the following scale:

Performance Measure Points	Individual Rating
0 - 74	0%
75	70%
80	80%
90	90%
100	100%
110	110%
120	120%
125+	125%

  - In addition, up to 25 additional points may be awarded to a participant at the discretion of the Chief Executive Officer.

Sample Calculations

- Example 1

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

Calculation:

Target Bonus	x	Company Rating	x	Individual Rating	=	Bonus Earned
$7,000	x	100%	x	90%	=	$6,300

- Example 2

  - Using the same salary and target bonus, but assuming Company performance was less than 90 percent of Target Net Income, there would be no bonus earned.

Calculation:

$7,000 x 0 x 90% = 0

- Example 3

  - Similarly, if individual Performance is rated below 75 points, no bonus would be earned regardless of the Company Rating.

Calculation:

$7,000 x 100% x 0 = 0

EMPLOYEE RECOGNITION PROGRAM

- In addition to the Management Incentive Program, the Company maintains an Individual Recognition Program to reward employees not eligible for the management bonus plan for superior performance or a special action, or heroic deed, or project that positively impacts the performance or image of the Company.

- Awards will be made from an annual pool, not to exceed $75,000 (which represents approximately less than 1% of the base payroll for the non-union employees who do not participate in the Management Incentive Program), established at the beginning of the year. Unused funds will not be carried over to the next year. If financial performance warrants, management may increase this pool by up to 50%.

- Awards will be made throughout the year and through the first quarter of the following year with payment as close to the timing of the event being rewarded as possible.

- Department Heads may nominate individuals in their unit to the applicable Vice President and document the reasons for the recommendations. The applicable Vice President will review the nominations and forward their recommendations to the Chief Executive Officer.

- The Chief Executive Officer will determine the individuals to actually receive a bonus and the amount.

EXHIBIT 13.3

SELECTED PORTION OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 1995

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands of dollars, except per share amounts)
Years ended December 31, 1995, 1994 and 1993

	1995	1994	1993
Earned revenues	$ 117,044	$ 108,636	$ 101,244
Costs and expenses:			
Operating expenses	51,702	50,296	45,989
Depreciation	11,572	10,468	9,927
Amortization	(15)	(138)	1,008
Taxes other than income taxes	7,676	7,165	6,890
	70,935	67,791	63,814
Operating income	46,109	40,845	37,430
Interest and debt expenses	14,852	12,896	13,108
Dividends on preferred stock	631	866	866
Allowance for funds used during construction	(305)	(126)	(805)
Income from continuing operations before income taxes	30,931	27,209	24,261
Provision for income taxes	12,901	11,571	10,426
Income from continuing operations	18,030	15,638	13,835
Reversal of reserve for discontinued operations, net of income tax of $200	370	--	--
Net Income	$ 18,400	$ 15,638	$ 13,835
Net income per share			
Continuing operations	$ 1.50	$ 1.35	$ 1.27
Discontinued operations	.03	--	--
Total	$ 1.53	$ 1.35	$ 1.27
Average common and common equivalent shares outstanding during the period	12,016	11,564	10,858

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

December 31, 1995 and 1994

Assets	1995	1994
Property, plant and equipment, at cost	$529,364	$462,500
Less accumulated depreciation	92,459	76,791
Net property, plant and equipment	436,905	385,709
Current assets:		
Cash	2,387	1,243
Accounts receivable, net	22,112	19,303
Inventory, materials and supplies	1,878	1,696
Prepayments and other current assets	537	594
Total current assets	26,914	22,836
Regulatory assets	48,757	48,334
Deferred charges and other assets, net	5,475	3,183
	$518,051	$460,062
Liabilities and Stockholders' Equity		
Common stockholders' equity:		
Common stock at par value net of $3,580 and $3,239 of Treasury shares in 1995 and 1994	$ 2,644	$ 2,740
Capital in excess of par value	110,987	102,564
Retained earnings	43,345	38,491
Total common stockholders' equity	156,976	143,795
Preferred stock of subsidiary with mandatory redemption requirements	5,643	7,143
Long-term debt, excluding current portion	175,395	152,195
Commitments	--	--
Current liabilities:		
Current portion of preferred stock of subsidiary with mandatory redemption requirements	1,500	2,857
Current portion of long-term debt	13,590	887
Loans payable	6,455	4,050
Accounts payable	9,694	7,505
Accrued interest	3,601	3,346
Other accrued liabilities	13,227	9,912
Net reserves related to discontinued operations	2,153	2,701
Total current liabilities	50,220	31,258
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	70,980	67,721
Customers' advances for construction	25,880	24,713
Other	9,762	11,028
Total deferred credits and other liabilities	106,622	103,462
Contributions in aid of construction	23,195	22,209
	$518,051	$460,062

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 1995, 1994 and 1993

	1995	1994	1993
Cash flows from operating activities:			
Income from continuing operations	$ 18,030	$ 15,638	$ 13,835
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	11,557	10,330	10,935
Deferred taxes, net of taxes on customers' advances	2,573	2,693	3,061
Net increase in receivables, inventory and prepayments	(2,037)	(1,209)	(1,438)
Net increase in payables and other accrued liabilities	4,349	2,237	1,354
Net increase (decrease) in accrued interest	255	(93)	(158)
Other	(1,773)	134	(540)
Net cash flows from operating activities	32,954	29,730	27,049
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of $305, $126 and $805	(33,182)	(27,379)	(27,958)
Acquisitions of water systems	(26,351)	(612)	(1,323)
Sale of businesses and related assets	--	--	1,665
Other	(91)	(10)	(40)
Net cash flows from investing activities	(59,624)	(28,001)	(27,656)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction, net of income tax payments	1,600	3,149	2,483
Repayments of customers' advances	(2,104)	(2,219)	(2,904)
Net proceeds (repayments) of short-term debt	2,405	3,231	(140)
Proceeds from long-term debt	57,906	7,722	21,839
Repayments of long-term debt including premium on early retirement	(23,585)	(4,884)	(34,559)
Redemption of preferred stock of subsidiary	(2,857)	--	--
Proceeds from issuing common stock	9,060	6,916	27,749
Repurchase of common stock	(733)	(2,230)	(992)
Dividends paid	(13,546)	(12,637)	(11,629)
Other	(154)	(45)	(104)
Net cash flows from financing activities	27,992	(997)	1,743
Net cash flows from discontinued operations	(178)	123	(1,183)
Net increase (decrease) in cash	1,144	855	(47)
Cash balance beginning of year	1,243	388	435
Cash balance end of year	$ 2,387	$ 1,243	$ 388

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Summary of Significant Accounting Policies

Nature of Operations

The business of Philadelphia Suburban Corporation (the Company) is conducted through its subsidiary Philadelphia Suburban Water Company ("PSW"). PSW is a regulated public utility which supplies water to approximately 265,000 customers. The customers are residential, commercial and industrial in nature, and no single customer accounted for more than five percent of PSW's sales. The service territory of PSW covers a 406 square mile area located west and north of the City of Philadelphia. PSW is subject to regulation by the Pennsylvania Public Utility Commission ("PUC") which has jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All material intercompany accounts and transactions have been eliminated.

Recognition of Revenues

Utility revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period.

Non-utility revenues are recognized when services are performed.

Property, Plant and Equipment and Depreciation

Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Utility plant acquired is recorded at estimated original cost when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 1995, utility plant includes a credit acquisition adjustment of $8,147 which is being amortized over 20 years. Consistent with PSW's recent rate settlements, $529 was amortized during 1995 and $822 was amortized during 1994, including $338 of amortization related to 1993.

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

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

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. There was no AFUDC related to equity funds in 1995 and 1994. The amount of AFUDC related to equity funds was $338 in 1993.

Deferred Charges and Other Assets

Deferred bond and preferred stock issuance expenses are amortized by the straight-line method over the life of the related issues.

Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance expense, are deferred and amortized over the life of the long-term debt used to fund the redemption.

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

Other costs, for which PSW has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery.

Income Taxes

The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax bases of the assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse.

Customers' Advances for Construction

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

Contributions in Aid of Construction

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

Inventories, Materials and Supplies

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

Use of Estimates in Preparation of Consolidated Financial Statements

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

(In thousands of dollars, except per share amounts)

Reclassifications
- -----------------

Certain prior year amounts have been reclassified for comparative purposes. These reclassifications had no effect on net income.

Acquisitions
- ------------

In May 1995, PSW purchased the franchise rights and the water utility assets of Media Borough ("Media"). The Media system covers a 23 square mile service area contiguous to PSW's service territory. In addition, PSW purchased the franchise rights and the water utility assets of four smaller water systems in 1995 that cover a combined service territory of four square miles. PSW paid $26,351 for the water systems acquired in 1995. These systems serve customers within or contiguous to the boundaries of PSW's existing service territory. The annual revenues from these systems approximate $4,750, and related revenues included in the consolidated financial statements were $2,820 for 1995.

In December 1994, PSW acquired the franchise rights and the water utility assets of two privately-owned water companies. In December 1993, PSW acquired the franchise rights and the water utility assets of the Borough of Malvern. These water supply systems cover a service territory of three square miles and are located adjacent to PSW's existing service territory. Revenues included in the consolidated financial statements related to the water supply systems acquired in 1994 and 1993 amounted to approximately $400 and $290 in 1995 and 1994, respectively.

PSW has also entered into preliminary agreements to acquire six additional water systems for a combined purchase price of approximately $20,600, including, subject to final negotiations, the issuance of up to $5,000 of the Company's preferred stock. These systems are adjacent or near to PSW's service territory. The combined annual revenues of these systems are approximately $2,900. In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to it's service territory.

Income Taxes
- ------------

Total income tax expense is allocated as follows:

	Years Ended December 31,		
	1995	1994	1993
Income from continuing operations	$12,901	$11,571	$10,426
Common stockholders' equity related to stock option activity which reduces taxable income	(44)	(25)	(65)
Discontinued operations	200	--	--
	$13,057	$11,546	$10,361

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

	Years Ended December 31,		
	1995	1994	1993
Current:			

Federal	$7,688	$ 6,670	$ 4,538
State	2,514	2,685	2,879
	10,202	9,355	7,417
Deferred:			
Federal	2,565	2,303	3,377
State	134	(87)	(368)
	2,699	2,216	3,009
Total tax expense	$12,901	$11,571	$10,426

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

	Years Ended December 31,		
	1995	1994	1993
Excess of tax over financial statement depreciation	$ 2,323	$ 2,791	$ 2,112
Amortization of deferred investment tax credits	(151)	(151)	(152)
Current year investment tax credits deferred	90	75	93
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation	819	902	889
Customers' advances for construction, net	(443)	(657)	(934)
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	--	(4,220)	2,120
Adjustment to recognize future rate recovery	--	4,220	(2,116)
Other, net	61	(744)	997
Total deferred income tax expense	$ 2,699	$ 2,216	$ 3,009

The statutory Federal tax rate is 35% for all years presented. The Pennsylvania Corporate Net Income Tax rate decreased to 11.99% in 1994, and 9.99% in 1995.

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

	Years Ended December 31,		
	1995	1994	1993
Computed Federal tax expense at statutory rate	$ 9,899	$ 8,614	$ 7,613
Increase (decrease) in tax expense for items to be recovered in future rates:			
Depreciation expense	132	154	151
Losses on asset disposals	(35)	(10)	(49)

(In thousands of dollars, except per share amounts)

Amortization of deferred investment tax credits	(151)	(151)	(153)
Preferred stock dividend	221	303	303
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	--	(4,220)	2,120
Adjustment to recognize future rate recovery	--	4,220	(2,116)
Other, net	187	63	46
Actual Federal tax expense	$ 10,253	$ 8,973	$ 7,915

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

	December 31,	
	1995	1994
Deferred tax assets:		
Customers' advances for construction	$ 9,950	$ 9,507
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	1,502	1,217
Other	363	363
Total gross deferred tax assets	11,815	11,087
Less valuation allowance	--	--
Net deferred tax assets	11,815	11,087
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	59,722	56,360
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	17,980	17,722
Deferred investment tax credit	4,363	4,424
Other	730	302
Total gross deferred tax liabilities	82,795	78,808
Net deferred tax liability	$70,980	$67,721

The Company made income tax payments, which include amounts related to discontinued operations, of $9,730, $8,818 and $7,786 in 1995, 1994 and 1993, respectively. The Company's Federal income tax returns for all years through 1992 have been closed.

(In thousands of dollars, except per share amounts)

Accounts Receivable

	December 31, 1995	December 31, 1994
Billed water revenue	$ 9,594	$ 8,267
Unbilled water revenue	12,450	11,014
Non-utility revenue	368	222
	22,412	19,503
Less allowance for doubtful accounts	300	200
Net accounts receivable	$22,112	$19,303

All of the Company's customers are located in southeastern Pennsylvania. No single customer accounted for more than five percent of the Company's sales in 1995 or 1994 and no account receivable from any customer exceeded five percent of the Company's total stockholders' equity.

Property, Plant and Equipment

	December 31, 1995	December 31, 1994
Utility plant and equipment	$524,445	$455,926
Utility construction work in progress	2,645	4,301
Non-utility plant and equipment	2,274	2,273
Total property, plant and equipment	$529,364	$462,500

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

Regulatory Asset

The regulatory asset represents costs which have been prudently incurred and are expected to be fully recovered in future rates. The two components of this asset are deferred income taxes and postretirement benefits other than pensions. Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow through basis and will be recovered as they reverse. The portion of the asset related to postretirement benefits other than pensions represents costs that were deferred during the period that the accrual method of accounting for these benefits was adopted in January 1993 and the recognition of the accrual method in the Company's rates in June 1994. Amortization of the amount deferred for postretirement benefits other than pensions began in June 1994 and is currently being recovered in rates.

(In thousands of dollars, except per share amounts)

	December 31, 1995	1994
Income taxes	$46,510	$45,952
Postretirement Benefits other than Pensions	2,247	2,382
	$48,757	$48,334

Commitments

PSW maintains agreements with the Chester Water Authority and the Bucks County Water and Sewer Authority for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2017. The estimated annual commitments related to such purchases total approximately $2,688 through 2000. PSW purchased approximately $2,839, $3,322 and $2,922 of water under these agreements during the years ended December 31, 1995, 1994 and 1993, respectively.

PSW leases motor vehicles and other equipment under operating leases which are noncancelable and expire on various dates through 1999. During the next five years, $1,124 of future minimum lease payments are due: $493 in 1996, $366 in 1997, $225 in 1998 and $40 in 1999. In May 1995, PSW entered into a 50 year operating lease, with certain renewal provisions for parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The lease is noncancelable and expires in 2045. The lease is subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, $292 of lease payments for land are due. Rent expense was $1,067, $979 and $1,134 for the years ended December 31, 1995, 1994 and 1993, respectively.

Long-term Debt and Loans Payable

	December 31, 1995	1994
First Mortgage Bonds secured by utility plant:		
5.500% Series, due 1996 (a)	$ 4,000	$ 4,000
7.875% Series, due 1997 (a)	5,000	5,000
8.440% Series, due 1997 (c)	12,000	12,000
8.400% Series, due 2002 (b)	4,150	4,600
5.950% Series, due 2002 (b)	2,800	3,200
6.820% Series, due 2005 (c)	10,000	-
13.000% Series, due 2005 (b)	-	8,000
10.650% Series, due 2006 (b)	10,000	10,000
9.890% Series, due 2008 (c)	5,000	5,000
7.150% Series, due 2008 (b)	22,000	22,000
9.120% Series, due 2010 (c)	20,000	20,000
6.500% Series, due 2010 (b)	3,200	3,200
9.170% Series, due 2011 (c)	5,000	5,000
9.930% Series, due 2013 (c)	5,000	5,000
6.890% Series, due 2015 (c)	12,000	-
9.970% Series, due 2018 (c)	5,000	5,000
9.170% Series, due 2021 (b)	8,000	8,000
6.350% Series, due 2025 (c)	22,000	-
7.720% Series, due 2025 (c)	15,000	-

(In thousands of dollars, except per share amounts)

9.290% Series, due 2026 (c)	12,000	12,000
Total First Mortgage Bonds	182,150	132,000
Note payable to bank under revolving credit agreement, due March 1998	5,160	19,370
Installment note payable, 9%, due in equal annual payments through December 2013	1,675	1,712
	188,985	153,082
Current portion of long-term debt	13,590	887
Long-term debt, excluding current portion	$175,395	$152,195
Proforma weighted cost of long-term debt at December 31,	8.0%	8.5%

(a) Provisions of PSW's trust indenture and supplements thereto relating to these First Mortgage Bonds require sinking fund payments amounting to 1/2 of 1% of the maximum aggregate principal amount of these bonds outstanding. These sinking fund payments may be deferred until final maturity by certification to the Trustee of the net amount of available permanent additions to utility plant. All prior sinking fund requirements have been deferred by such certification and it is expected that they will be deferred in the same manner until these bonds mature.

(b) The supplemental trust indentures relating to these First Mortgage Bonds require annual sinking fund payments.

(c) The supplemental trust indentures relating to these First Mortgage Bonds require no annual sinking fund payments.

The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's stock. As of December 31, 1995, approximately $83,000 of retained earnings were free of these restrictions. Certain supplemental indentures also prohibit PSW from making loans to or purchasing the stock of the Company.

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

	1996	1997	1998	1999	2000
Sinking fund payments	$ 440	$ 1,444	$3,448	$3,452	$3,457
Maturities	13,150	12,000	-	-	-
Total	$13,590	$13,444	$3,448	$3,452	$3,457

In March 1995, PSW established a two-year $100,000 medium-term note program providing for the issuance of long-term debt with maturities ranging between one and 30 years at fixed rates of interest, as determined at the time of issuance. The notes issued under this program are secured by the Twenty-ninth Supplement to the trust indenture relating to PSW's First Mortgage Bonds. Issuances through this program were as follows: $15,000 in May 1995, 7.72% Series due 2025; $10,000 in June 1995, 6.82% Series due 2005; and $12,000 in December 1995, 6.89% Series due 2015. The proceeds from these issuances were used to fund the Media acquisition, the retirement of the First

(In thousands of dollars, except per share amounts)

Mortgage Bonds noted below and PSW's ongoing capital program.

In August 1995, PSW issued $22,000 First Mortgage Bonds 6.35% Series due 2025 as security for an equal amount of bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds are restricted to funding the costs of certain capital projects. As of December 31, 1995, the Trustee for this issue held $1.8 million in an interest bearing account pending completion of the remainder of the projects financed with this issue. The amount held by the Trustee is included in the balance sheet as cash. It is expected that these projects will be completed by the third quarter of 1996, however funds may be drawn from the trust prior to that time as expenditures are made on these projects.

In August 1995, PSW retired $8,000 of First Mortgage Bonds, 13% Series due 2005, at a premium of 6.1% or $488. In December 1995, PSW called for early retirement in January 1996 $5,000 of First Mortgage Bonds, 7.875% Series, at a premium of .331% or $17 and $4,150 of First Mortgage Bonds, 8.4% Series, at a premium of 2.1% or $87. The unamortized bond issuance expenses related to these retirements were $35. The premiums paid on the early retirement of debt, along with the related unamortized bond issuance expense, are capitalized and amortized, in accordance with the Uniform System of Accounts prescribed by the PUC, over the life of the long-term debt used to fund the redemption.

In February 1994, PSW entered into a $30,000 revolving credit agreement due March 1998 with four banks. The agreement was amended to temporarily increase the available borrowings under this facility by $10,000 during the period May 1995 to August 1995 as interim financing for the Media acquisition. Interest under this facility is based, at PSW's option, on the prime rate, an adjusted Federal funds rate, an adjusted certificate of deposit rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts the total amount of short-term borrowings of PSW. A commitment fee of 1/8 of 1% is charged on the unused portion of the loan. The average cost of borrowing under this facility was 6.42% and 4.8%, and the average borrowing was $22,755 and $19,136, during 1995 and 1994, respectively. The maximum amount outstanding at the end of any one month was $36,800 in 1995 and $24,100 in 1994.

At December 31, 1995 and 1994, the Company and PSW had combined short-term lines of credit of $10,000. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was $5,720 and $880 during 1995 and 1994, respectively. The maximum amount outstanding at the end of any one month was $8,615 in 1995 and $4,050 in 1994. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 1995 and 1994 was 6.8% and 6.3%, respectively.

The total amount of interest paid on all borrowings, net of amounts capitalized, was $14,923, $13,729 and $13,327 in 1995, 1994 and 1993, respectively.

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amounts and estimated fair values of the Company's long-term financial liabilities as of December 31, 1995 are as follows:

	Carrying amount	Estimated fair value
Long-term debt	$188,985	$210,634

(In thousands of dollars, except per share amounts)

Preferred stock of subsidiary with mandatory redemption requirements	7,143	7,446

The fair value of long-term debt and preferred stock has been determined by discounting their future cash flows using current market interest or dividend rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have carrying values of $25,880 and $7,051, respectively at December 31, 1995. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Preferred Stock of Subsidiary with Mandatory Redemption Requirements

PSW is authorized to issue up to 1,000,000 shares of preferred stock, with stated par value, in one or more series. In 1991, PSW issued 100,000 shares of 8.66% Series 1 Cumulative Preferred Stock, at par value of $100 per share in a private placement. Dividends on this issue are payable quarterly and are cumulative. PSW may not pay dividends on its common stock unless provision has been made for payment of the preferred dividends. As of December 31, 1995, all preferred dividends have been provided for. These shares are subject to mandatory annual redemption equal to the par value of 14,285 shares plus accrued dividends. In addition, PSW has the right to call 14,285 shares per year starting in 1995, up to a maximum of 15,000 shares over the life of the issue, at par, and the balance beginning in 1998 at a specified price above par.

In December 1995, PSW provided notice to the holder of the preferred stock of its intention to call 15,000 shares at par in January 1996 as required by the share purchase agreement and, therefore, $1,500 has been classified as the current portion of preferred stock as of December 31, 1995. In January 1995, PSW called 14,285 shares at par value in addition to the mandatory redemption of 14,285 shares required by the share purchase agreement.

Net Income per Share and Equity per Common Share

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

Equity per common share was $12.88 and $12.27 at December 31, 1995 and 1994, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Common Stockholders' Equity

At December 31, 1995, the Company had 20,000,000 shares of common stock authorized; par value $.50. Shares outstanding at December 31, 1995, 1994 and 1993 were 12,188,748, 11,717,990 and 11,429,968, respectively. Treasury shares held at December 31, 1995, 1994 and 1993 were 259,125, 240,737 and 135,472, respectively.

(In thousands of dollars, except per share amounts)

At December 31, 1995, the Company had 1,770,819 shares of authorized but unissued Series Preferred Stock, $1.00 par value.

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Total
Balance at December 31, 1992	$ 4,958	$ (265)	$ 68,994	$ 33,284	$ 106,971
Net income	--	--	--	13,835	13,835
Dividends	--	--	--	(11,629)	(11,629)
Sale of stock	759	--	25,111	--	25,870
Repurchase of stock	--	(992)	--	--	(992)
Exercise of stock options	66	--	1,813	--	1,879
Balance at December 31, 1993	5,783	(1,257)	95,918	35,490	135,934
Net income	--	--	--	15,638	15,638
Dividends	--	--	--	(12,637)	(12,637)
Sale of stock	175	248	6,022	--	6,445
Repurchase of stock	--	(2,230)	--	--	(2,230)
Equity Compensation Plan	5	--	174	--	179
Exercise of stock options	16	--	450	--	466
Balance at December 31, 1994	5,979	(3,239)	102,564	38,491	143,795
Net income	--	--	--	18,400	18,400
Dividends	--	--	--	(13,546)	(13,546)
Sale of stock	217	392	7,621	--	8,230
Repurchase of stock	--	(733)	--	--	(733)
Equity Compensation Plan	1	--	31	--	32
Exercise of stock options	27	--	771	--	798
Balance at December 31, 1995	$ 6,224	$ (3,580)	$ 110,987	$ 43,345	$ 156,976

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

The Company has a Customer Stock Purchase Program for PSW's customers, and a Dividend Reinvestment and Optional Stock Purchase Program for existing shareholders. Reinvested dividends can be used to purchase shares of common stock at a five percent discount from the current market value under the Dividend Reinvestment Program. Under these programs, 434,034, 350,818 and 417,501 shares of common stock were sold providing the Company with $7,846, $6,191 and $7,539 of additional capital, after expenses, during 1995, 1994 and 1993, respectively.

In August 1993, the Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 250,000 shares of its common stock in the open market or through privately negotiated transactions. The number of shares purchased by the Company, if any, is limited to the number of shares sold under its employee stock option and stock purchase plans, Customer Stock Purchase Program and Dividend Reinvestment Program and Optional Stock Purchase Program.

The purchase of shares has been authorized in order to offset the dilutive effect on earnings per share of issuances of additional shares under these programs. Funding for any stock purchases is not expected to have a material impact on the Company's financial position. During 1995, 1994 and 1993, 39,456, 118,867 and 51,635 shares have been purchased at a net cost of $733, $2,230 and $992, respectively.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 25% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 30% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 25% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of $.02 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 1998, unless previously redeemed.

(In thousands of dollars, except per share amounts)

Employee Stock and Incentive Plans

In May 1994, the 1994 Equity Compensation Plan ("1994 Plan") was approved by the shareholders to replace the 1988 Stock Option Plan ("1988 Plan"). Under the 1994 Plan as amended, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors. The 1994 Plan authorizes up to 450,000 shares of common stock for issuance under the plan, with the maximum number of restricted stock grants limited to 25,000 shares. The 1988 Plan provided only for the issuance of qualified and non-qualified stock options. Awards under these plans are made by the Board of Directors ("Board")or a committee of the Board.

Options under both the 1994 and 1988 plans, as well as an earlier 1982 Stock Option Plan for which 18,000 options are still outstanding, were issued at the market price of the stock on the day of the grant. Options are exercisable in installments ranging from 20% to 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant.

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

	Years Ended December 31,		
	1995	1994	1993
Options granted	120,500	115,500	128,000
Options terminated	-	(7,000)	(95,100)
Options exercised	(53,312)	(32,469)	(136,800)
Net change	67,188	76,031	(103,900)
Balance of shares under option	527,519	460,331	384,300

Options exercised during 1995 ranged in price from $12.88 per share to $17.94 per share. The shares under option at December 31, 1995 are exercisable at prices ranging from $12.94 to $17.94 per share. At December 31, 1995, 208,285 shares were exercisable, and 202,200 options under the 1994 Plan were available for grant.

Dividend equivalents provide the grantee with an amount equal to the dividends paid on a share of common stock over a specified period of time, not to exceed four years, multiplied by the number of dividend equivalents awarded. Payments of these awards are deferred until the completion of certain objectives during a performance period established by the Board at the time of grant. A performance period is generally four years but may be adjusted by the Board to as long as eight years or as short as two years depending on the Company's success in completing the objectives. Dividend equivalents are "compensatory" and as such, are charged to operating expense over the performance period. The effect of changes to the performance period are accrued when known or projected. The Board granted 45,500 and 43,500 dividend equivalents in 1995 and 1994, respectively, and costs associated with these awards were $197 in 1995 and $77 in 1994.

(In thousands of dollars, except per share amounts)

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 1995, 1,800 shares of restricted stock were granted with a restriction period of six months and during 1994, 10,000 shares of restricted stock were granted with restriction periods of one to three years. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and this amount is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans which cover its full-time employees. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. As a result of certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company, in 1989, adopted a non-qualified Excess Benefit Plan for

Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has a non-qualified Supplemental Executive Retirement Plan for two employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow.

The Company's pension expense includes the following components:

	Years Ended December 31,		
	1995	1994	1993
Benefits earned during the year	$ 905	$ 1,183	$ 1,062
Interest cost on projected benefit obligation	3,304	3,161	3,026
Actual return on plan assets	(9,256)	1,218	(4,989)
Net amortization and deferral	6,029	(4,679)	1,643
Capitalized costs	(133)	(74)	(69)
Rate-regulated adjustment	(311)	(386)	(375)
Net pension cost	$ 538	$ 423	$ 298

The rate-regulated adjustment set forth above is required in order to reflect pension expense for PSW in accordance with the method used in establishing the current water rates.

The assets and obligations of the plans are as follows:

(In thousands of dollars, except per share amounts)

	December 31, 1995	December 31, 1994
Accumulated benefit obligation:		
Vested	$ 38,096	$ 30,786
Non-vested	2,312	1,702
Total	$ 40,408	$ 32,488
Projected benefit obligation	$ 50,585	$ 38,704
Plan assets at fair value, primarily equity and fixed income commingled funds	46,698	38,941
Plan assets in excess of (less than) projected benefit obligation	(3,887)	237
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in assumptions	1,151	(2,583)
Unrecognized prior service cost	1,465	1,510
Rate-regulated adjustment	388	59
Unrecognized net obligation	541	630
Accrued pension costs included in other current liabilities	$ (342)	$ (147)

The accumulated benefit obligation represents the actuarial present value of benefits based on historical compensation and historical years of service. The projected benefit obligation represents the actuarial present value of benefits based on future projected compensation levels and historical years of service. The unrecognized net obligation is being amortized over 15 years starting January 1986 and the unrecognized prior service cost is being amortized over 14 years starting January 1990.

The accumulated and projected benefit obligations were calculated using the projected unit credit method, and reflect the following assumptions: discount rates of 7% for 1995, 8.5% for 1994 and 7% for 1993; increase in future compensation levels of 5.5% for all years presented; and long-term rate of return on assets of 9% for 1995 and 1994, and 10% for 1993.

In addition to providing pension benefits, PSW offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees retiring with at least 15 years of service. These PBOPs include continuation of medical and prescription drug benefits for all eligible retirees and a life insurance policy for eligible union retirees.

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

	Years Ended December 31, 1995	1994	1993
Benefits earned during the year	$ 208	$ 359	$ 325
Interest cost	994	1,077	1,192

(In thousands of dollars, except per share amounts)

Return on plan assets	(101)	--	--
Net amortization and deferral	655	743	743
Amortization of regulatory asset	136	74	--
Gross PBOP cost	1,892	2,253	2,260
Capitalized costs	(94)	(45)	--
Adjustment to recognize future rate recovery	--	(760)	(1,696)
Net PBOP cost	$ 1,798	$ 1,448	$ 564

The assets and liabilities of the plans for postretirement benefits other than pensions are as follows:

	December 31,	
	1995	1994
Accumulated postretirement benefit obligation (APBO):		
Retirees	$ 8,011	$ 5,837
Fully eligible active employees	4,075	3,766
Other employees	2,699	2,706
Total APBO	14,785	12,309
Fair value of plan assets	2,267	--
APBO in excess of plan assets	12,518	12,309
Unrecognized net transition obligation	(12,638)	(13,381)
Unrecognized net gain	2,367	4,349
Accrued PBOP cost included in other liabilities	$ 2,247	$ 3,277

The APBO is calculated utilizing the following assumptions: discount rate of 7%; medical inflation rates of 5% for those employees not eligible by December 31, 1993, and 11%, reducing to 4.5% by 2002 for all others; a 9% return on plan assets in 1995, and, in 1994, no return on plan assets. The effect of a 1% increase in the assumed medical inflation rates would be to increase the APBO and the 1995 PBOP costs by $1,100 and $82, respectively.

The Company has begun to fund its liability for postretirement benefits other than pensions and has deposited $2,425 in various trust accounts during the year.

Water Rates

PSW was permitted by the PUC to increase its base rates by 5.3%, 9.05% and 7.4% effective October 27, 1995, June 17, 1994 and June 1, 1993, respectively. These increases were calculated to provide additional annual revenues of approximately $6,150, $9,050 and $6,750, respectively. As a part of the 1995 base rate increase, PSW agreed not to file for a new base rate increase prior to April 26, 1996, absent extraordinary circumstances.

In addition to its base rates, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated into base rates. In October 1995, the existing credit of 1.04% was eliminated with the adoption of new base rates. PSW was required to initiate a revenue credit in 1994 in order to provide its customers with the savings associated with Pennsylvania tax rate decreases. In 1993, PSW was permitted to add a bill surcharge in order to recover costs associated with Pennsylvania tax rate increases. The credit decreased revenues in 1995 and 1994 by $504 and $97, respectively, while the surcharge increased revenues in 1993 $706.

Discontinued Operations

The Board of Directors had authorized the sale of substantially all of the Company's non-regulated businesses by the end of the first quarter of 1991 and, in the first quarter of 1993, the last of these businesses was sold. At the time the Board of Directors authorized the sale of these businesses, the Company established reserves for: projected operating losses of these businesses subsequent to their sale authorizations; estimated losses on the sale transactions; and certain future costs, including administrative and legal services related to the sales, contingent legal and lease obligations and certain employee costs. These reserves were recorded on the balance sheet net of related income tax benefits. During 1995 and 1994, $178 and $162 of payments associated with discontinued operations were charged to the reserve.

As a result of the receipt of contingent sale proceeds from two of the businesses sold, the passage of time, which reduced certain lease contingencies, and the most recent assessment of asserted and unasserted legal claims related to these businesses, the Company determined that, as of December 31, 1995, the net reserves were in excess of current estimates of potential costs by $370 or $.03 per share and the reserves were reduced accordingly.

MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1995, 1994 and 1993 were prepared by management in accordance with generally accepted accounting principles and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

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

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

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is composed of four outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1995.

Nicholas DeBenedictis	Michael P. Graham
Chairman &	Senior Vice President - Finance
President	& Treasurer

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, and cash flows for each of the years in the three-year period ended December 31, 1995. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the years in the four-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 6, 1996

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Selected Quarterly Financial Data (Unaudited)

	First	Second	Third	Fourth	Total Year
			1995		
Earned revenues	$25,712	$28,827	$32,355	$30,150	$117,044
Operating expenses	11,766	12,357	13,793	13,786	51,702
Income, continuing operations	3,315	4,659	5,732	4,324	18,030
Income per share, continuing operations	.28	.39	.48	.35	1.50
Income, discontinued operations	-	-	-	370	370
Income per share, discontinued operations	-	-	-	.03	.03
Net income	3,315	4,659	5,732	4,694	18,400
Net income per share	.28	.39	.48	.38	1.53
Dividend paid per share	.28	.28	.29	.29	1.14
Price range of common stock					
- high	18.25	18.75	18.63	21.50	21.50
- low	17.38	17.63	17.63	18.00	17.38
			1994		
Earned revenues	$24,849	$26,730	$28,849	$28,208	$108,636
Operating expenses	12,056	12,001	12,511	13,728	50,296
Net income	2,949	4,035	4,897	3,757	15,638
Net income per share	.26	.35	.42	.32	1.35
Dividend paid per share	.27	.27	.28	.28	1.10
Price range of common stock					
- high	19.63	18.50	19.38	18.75	19.63
- low	17.38	17.13	17.50	17.25	17.13

High and low prices of the Company's common stock are as traded on the New York Stock Exchange.

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

General Information

Philadelphia Suburban Corporation ("PSC" or the "Company"), a Pennsylvania corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW"), a regulated water utility. PSW provides water to approximately 265,000 customers in 81 municipalities within its 406 square mile service territory. PSW's service territory is located north and west of the City of Philadelphia.

Results of Operations

Following are selected five-year financial statistics for the Company:

Years ended December 31,	1995	1994	1993	1992	1991
Earned revenues	$117,044	$108,636	$101,244	$93,307	$88,648
Income from continuing operations before income taxes	$30,931	$27,209	$24,261	$18,661	$17,260
Operating Statistics					
Earned revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operating expenses	44.2	46.3	45.4	46.1	48.1
Depreciation and amortization	9.9	9.5	10.8	10.1	9.3
Taxes other than income taxes	6.6	6.6	6.8	7.0	6.9
Interest and debt expenses*	13.2	12.7	13.8	17.1	17.5
Allowance for funds used during construction	(0.3)	(0.1)	(0.8)	(0.3)	(1.3)
Total costs and expenses	73.6	75.0	76.0	80.0	80.5
Income from continuing operations before income taxes	26.4%	25.0%	24.0%	20.0%	19.5%
Effective tax rates	41.7%	42.5%	43.0%	43.1%	41.0%
Income from continuing operations as a percentage of average common stockholders' equity	12.0%	11.2%	11.4%	11.0%	11.9%

*Includes dividends on preferred stock of PSW with mandatory redemption requirements.

Following are selected five-year operating and sales statistics for PSW:

Years ended December 31,		1995	1994	1993	1992	1991
Daily sendout (Million gallons per day)	Maximum	121.8	110.4	120.7	101.3	109.5
	Average	92.6	89.8	89.1	85.4	87.2
Metered customers	Residential	248,500	234,624	232,684	230,740	223,635
	Commercial	11,725	10,777	10,720	10,547	9,800
	Industrial	848	833	832	837	820
	Other	3,792	3,299	2,959	2,664	2,361
	Total	264,865	249,533	247,195	244,788	236,616
Consumption per customer						

in gallons	Average	109,084	109,001	110,368	108,258	110,978
Revenues from water sales	Residential	$ 77,744	$ 69,483	$66,656	$60,239	$58,053
	Commercial	23,911	22,998	20,112	19,235	18,031
	Industrial	4,969	5,170	4,601	4,500	4,126
	Other	9,249	9,151	8,092	7,577	6,856
	Total	$115,873	$106,802	$99,461	$91,551	$87,066

Income from continuing operations of the Company has grown at an annual compound rate of approximately 13.1% during the five-year period ended December 31, 1995. During this same period, revenues and total expenses, other than income taxes, have grown at compound rates of 7.3% and 5.2%, respectively.

Earned Revenues

The growth in revenues over the past five years is a result of increases in water rates and an increase in customer base. The number of customers increased in the past three years primarily as a result of acquisitions of local water systems, which provided water revenues of approximately $5,550, $2,480 and $2,052 in 1995, 1994 and 1993, respectively. Excluding the customers that were added at the time of these acquisitions, the customer base increased at a five-year annual compound rate of .7%. This increase represents normal growth in the number of households and businesses within PSW's 406 square mile service territory. Water rates have increased by 32.9% since 1991, reflecting an annual compound growth rate of 5.9% over the five-year period.

Rates charged by PSW for water service are subject to the approval of the Pennsylvania Public Utility Commission ("PUC"). PSW continuously reviews the necessity of filing applications with the PUC for increases in rates charged for water service. Among the factors considered by management in determining the need to apply for increased rates are: the amount of utility plant additions and replacements made since the previous rate decision; changes in the cost of capital and the capital structure of PSW; and increases in operating expenses (including wages, fringe benefits, electric and chemical expenses), depreciation and taxes experienced since the previous rate decision. Based on these assessments, PSW will periodically file a request with the PUC to increase its rates. Typically, the PUC will suspend the rate request for up to nine months during which time hearings on the merits of the request are held. During these hearings, the views of PSW as well as the PUC staff, the Consumer Advocate and other interested parties are presented and evaluated. In the five years presented above, rates were increased 5.3%, 9.1%, 7.4% and 7.7% in 1995, 1994, 1993 and 1991, respectively.

The return allowed on PSW's common equity is a major factor in the determination of rates and is also evaluated before applying for a rate increase. The 1991 rate increase, in which a 12% return on common equity was allowed, was the most recent decision in which the PUC specified a return on common equity for PSW. The rate increases that were effective since 1991 resulted from settlements, with PUC approval, between the Company and the opposing parties and, as such, no determination of the rate of return on common equity was made by the PUC.

In addition to increases in base rates, the PUC has adjusted rates by means of a surcharge or credit to reflect changes in the tax laws, which were not reflected in the base rates approved by the PUC. These adjustments are eliminated when the tax changes are reflected in base rates. During 1995 and 1994, rates were reduced by various credits as a result of reductions in Pennsylvania's taxes. These credits resulted in revenue reductions of $504 in 1995 and $97 in 1994. During the period from August 1991 to May 1993, various surcharges were in effect which increased revenues by $706 in 1993 and $2,281 in 1992. The rate increase that became effective in October 1995 reflected the tax rates that are currently in effect and the rate credit of 1.04%, which was in effect just prior to the rate increase, was eliminated.

"Sendout" represents the quantity of treated water delivered to the distribution system and is used by management as an indicator of customer demand. Consumption per customer is the sendout that was used by metered customers and is based on the actual bills rendered during the year adjusted for the estimated unbilled customer usage. Over the past five years, an average of approximately 82.6% of the sendout was consumed by metered customers. The majority of the balance was used through unmetered fixed-rate fire hydrants, lost through leaks in water mains or used by PSW in its operations. PSW's ratio of metered customer use to total sendout is consistent with industry statistics. The percentage of water consumed by metered customers was 82.9% in 1995, 82.5% in 1994 and 83.3% in 1993. Variations over the last three years are believed to be associated with the number of main breaks experienced, which is generally affected by the severity of the winter weather. Management believes that PSW's leak detection and water main rehabilitation programs, and an increase in the number of newer and more accurate meters, have contributed to an overall improvement in this percentage.

Water consumption tends to be impacted by weather conditions, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. The average annual consumption per customer has varied slightly over the past five years and it appears that weather patterns are the primary reason for these variations. The summer of 1995 was hotter and dryer than the previous year and consumption increased resulting in increased revenues and net income during the third quarter. In late September, the Governor of Pennsylvania issued a drought emergency order which mandated certain restrictions on water use. Because the order was issued toward the end of the summer months, when nonessential and recreational use of water has traditionally declined, the restrictions did not have a significant impact on consumption. The drought emergency was declared over in November and all restrictions were lifted by year end 1995. It is difficult to establish an exact correlation between the weather and water consumption, since conservation and even day-to-day variations in weather patterns can have an effect. Conservation efforts, construction codes which require the use of low flow plumbing fixtures as well as mandated water use restrictions in response to drought conditions have also had an effect on water consumption.

Operating Expenses

Operating expenses for 1995, 1994 and 1993, totalled $51,702, $50,296 and $45,989, respectively. All elements of cost are subject to the effects of inflation, as well as the effects of changes in water consumption and the degree of treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption and raw water quality. Maintenance expenses are sensitive to extreme cold weather, which can cause water mains to rupture.

Operating expenses increased in 1995 over 1994 by 2.8% reflecting additional expenses associated with the acquisition of other water systems completed during the year, increased wages and employee benefit costs and the increased sendout, offset by a decline in maintenance expense. Expenses related to the operations of the water systems acquired in 1995 were $1,445. Wage increases reflect normal merit increases, while employee benefit costs increased primarily as a result of $411 of additional costs for postretirement benefits other than pensions computed under SFAS 106, which were recognized commencing in June 1994 in conjunction with the rate settlement that became effective at that time. Maintenance expenses declined compared to 1994 due to the less severe winter.

The Company's operating expenses increased in 1994 over 1993 by 9.4% primarily due to increased wages and employee benefits and additional expenses associated with the harsh winter conditions of 1994. The increase in employee benefits was primarily the result of $895 of additional costs for postretirement benefits other than pensions computed under SFAS 106 that were recognized in conjunction with the June 1994 rate increase. The severe weather conditions in January and February 1994 caused significant maintenance problems, including an abnormally high number of water main breaks, and required additional treatment costs as raw water quality deteriorated during these months.

For the past three years, corporate costs were less than 1% of the Company's operating expenses. Such expenses include those unallocated general and administrative expenses associated with maintaining a publicly-held company.

Depreciation and Amortization

Depreciation expense was $11,572, $10,468 and $9,927 in 1995, 1994 and 1993, respectively, and has increased principally as a result of the significant capital expenditures made to expand and improve the water utility facilities and to acquire water systems. Depreciation expense was approximately 2.4% of the average utility plant in service for all years. Amortization was a credit of $15 in 1995 as compared to a credit of $138 in 1994 and a charge of $1,008 in 1993. The change in amortization in 1995 is primarily due to a reduction in the amortization of acquisition adjustments offset by a decline in the amortization of rate case costs. The change in amortization in 1994 is due to the amortization of the acquisition adjustment associated with the December 1992 purchases of two water systems, which was recognized retroactive to the acquisition date in conjunction with the June 1994 rate settlement.

Taxes Other than Income Taxes

Taxes other than income taxes increased by 7% in 1995 and by 4% in 1994 over the previous year. The majority of the increase in both years was associated with increases in the bases on which the Pennsylvania Public Utility Realty Tax (PURTA) and the Capital Stock Tax are calculated. The increase in taxable base for the PURTA is due to the increases to utility plant over the past two years, including increases associated with acquisitions completed in the last two years. The increase in the Capital Stock Tax is due to the increases in the Company's common equity over the past three years.

Interest and Debt Expenses

Interest and debt expense was $14,852, $12,896 and $13,108 in 1995, 1994 and 1993, respectively, and has increased in 1995 primarily as a result of higher levels of borrowing. The level of debt increased in order to finance acquisitions and other capital expenditures made in 1995. Interest and debt expense decreased in 1994 from 1993 due to reductions in the average debt outstanding and the refinancing of certain First Mortgage Bonds at PSW with lower-cost debt. The Company was able to reduce its average outstanding debt in 1994 with the proceeds it received from the issuance of common stock, the sale of its discontinued operations and by improved operating cash flows.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was $305, $126 and $805 in 1995, 1994 and 1993, respectively, and has varied over the years as a result of changes in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate.

The average balance of CWIP to which AFUDC is applied was $4,848, $2,820 and $8,379 in 1995, 1994 and 1993, respectively. The increase in 1995 in the average balance of CWIP is due to a $4,600 operations center that was placed in service in December 1995 and the decrease in 1994 from 1993 is due to an $11,500 treatment plant that was placed in service in November 1993. AFUDC is no longer applied to projects after they are placed in service, but is applied to an ever-increasing base during the period they are under construction.

The AFUDC rate has also varied due to changes in the interest rate on PSW's revolving credit facility. The average AFUDC rate was 6.3%, 4.6% and 9.1% in 1995, 1994 and 1993, respectively.

Income Taxes

The Company's effective income tax rate was 41.7% in 1995 as compared to 42.5% in 1994 and 43.0% in 1993. The decline in the effective tax rate in 1995 and 1994 is primarily due to reductions in the Pennsylvania Corporate Net Income Tax rate of 2% in 1995 and .3% in 1994.

Discontinued Operations

In the first quarter of 1993, the Company completed the sale of the last of the five nonregulated businesses that the Board of Directors had previously authorized in 1990 and 1991. The results of operations of these businesses during the period they were owned by the Company are accounted for as discontinued operations.

In the fourth quarter of 1995 the Company reversed $370, net of related taxes, of the reserves it had established in prior years for its discontinued operations. The reversal was made as a result of the receipt of contingent sales proceeds from two of the businesses that were sold; the passage of time, which reduced certain potential lease obligations; and the most recent assessment of asserted and unasserted legal claims related to these businesses. The balance of the reserves for discontinued operations of $2,153 at December 31, 1995 consists primarily of reserves for future and contingent costs including potential lease, legal and insurance costs associated with these businesses.

Summary

Operating income in 1995, 1994 and 1993 was $46,109, $40,845 and $37,430, respectively, and income from continuing operations was $18,030, $15,638 and $13,835, respectively, for the same periods. Net income was $18,400 in 1995 and was higher than income from continuing operations as a result of the reversal of $370 of reserves for the discontinued operations. Net income was equal to income from continuing operations in 1994 and 1993. On a per share basis, income from continuing operations in 1995, 1994 and 1993 was $1.50, $1.35 and $1.27, respectively. The increases in the per share income in 1995 and 1994 over the previous years were due to the aforementioned improvements in profits offset in part by a 3.9% and 6.5% increase in the average number of shares outstanding during 1995 and 1994, respectively.

Although the Company has experienced increased income in the recent past, continued adequate rate increases reflecting increased operating costs and new capital investments are important to the future realization of improved profitability. This, in turn, will provide the level of internal funds necessary to expand and improve PSW's utility plant.

Fourth Quarter Results

Income from continuing operations for the fourth quarter of 1995 increased by $567 to $4,324 primarily as a result of a $1,942 increase in revenues. The increase in revenues was a result of the acquisitions made during the past two years and the 5.3% rate increase which took effect October 27, 1995. The increase in revenues was partially offset by higher operating expenses, interest and debt expenses, income taxes, depreciation and taxes other than income taxes. Operating expense increases were primarily attributable to the acquisitions made during the year. Depreciation increased due to utility plant additions made since the fourth quarter of 1994. Taxes other than income taxes increased primarily because of the increase in the base on which the PURTA and Capital Stock Tax are computed. Interest increased in the fourth quarter primarily as a result of higher borrowing levels.

Effects of Inflation

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

Regulatory Asset
- ----------------

During 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106") and Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). These standards require PSW to compute its income tax expense and its postretirement benefit costs other than pensions ("PBOP") in a manner which has differed from the computations used by the PUC to establish PSW's rates. A regulatory asset was established during 1993 to defer the incremental costs related to the adoption of the new standards and to recognize their expected recovery through future water rates. The use of regulatory accounts is permitted by Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), which recognizes that the economic effects of regulations on a utility can sometimes require accounting which is different from that applied to enterprises in general, in order for the financial statements to be presented fairly.

The rate increase which was effective in June 1994 included recovery of PBOP cost computed under SFAS 106, as well as an amortization of PBOP costs recorded as a regulatory asset. Deferral of PBOP costs to the regulatory asset ceased with the implementation of these rates. Certain decisions by the PUC on the rate recovery of PBOP costs that were deferred as a regulatory asset by other utilities have been appealed by the Consumer Advocate and the outcome of these cases could have an impact on the ability of PSW to recover its deferred PBOP costs. Based on its assessment of these cases, management believes that PSW's regulatory asset related to PBOP costs will be recoverable in future rates.

Financial Condition
- -------------------

Cash Flow and Capital Expenditures
- ----------------------------------

Net operating cash flow, dividends and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1995 are as follows:

	Net operating cash flow	Dividends	Capital expenditures
1991	$ 18,055	$ 7,859	$ 22,335
1992	23,928	8,866	21,719
1993	27,049	11,629	27,958
1994	29,730	12,637	27,379
1995	32,954	13,546	33,182
	$131,716	$ 54,537	$132,573

Included in capital expenditures are: $21,208 for the construction of two surface water treatment plants; $7,728 for the modernization of existing treatment plants; $11,902 for new water mains; $20,850 for the rehabilitation of existing water mains; $20,253 for water meters and $4,614 for the construction of a divisional operations center. During this five year period, PSW received $13,115 of advances and contributions in aid of construction to finance new water mains. In addition to its capital program, PSW has made sinking fund contributions aggregating $5,352, retired $48,950 of debt and $2,857 of preferred stock, and has refunded $11,457 of customer advances for construction. PSW has also expended $37,414 related to the acquisition of 10 water systems since December 1992.

Since net operating cash flow to PSW plus advances and contributions in aid of construction have not been sufficient to fully fund its cash requirements, PSW issued approximately $107,777 of long-term debt during the past five years, $10,000 of preferred stock in 1991 and received $29,000 of equity investments from the Company during 1993.

The Company funded its investment in PSW with the proceeds from the sale of common stock and the sale of its discontinued operations. In April 1993, the Company sold 1,100,000 shares of common stock in a public offering for net proceeds of $18,331. The Company has also sold 3,182,833 shares of common stock for net proceeds of $50,084 since 1991 through three programs that allow existing shareholders and customers of PSW to purchase shares of common stock directly from the Company. The following table provides the net proceeds to the Company and the shares issued under these programs:

	Customer Stock Purchase Program	Dividend Reinvestment Program	Optional Stock Purchase Program	Total
Net proceeds:				
1991	$ 2,651	$ 494	$ 172	$ 3,317
1992	24,185	742	264	25,191
1993	5,465	1,491	583	7,539
1994	3,541	2,047	603	6,191
1995	4,680	2,324	842	7,846
	$40,522	$ 7,098	$ 2,464	$50,084
Shares issued:				
1991	193,775	37,247	11,997	243,019
1992	1,669,159	51,143	17,159	1,737,461
1993	298,940	86,704	31,857	417,501
1994	200,690	117,020	33,108	350,818
1995	255,455	132,910	45,669	434,034
	2,618,019	425,024	139,790	3,182,833

Proceeds from the customer stock purchase program increased dramatically in 1992 and, in order to better match future equity additions with the need for additional capital, the Company amended this program in 1993 to eliminate the 5% discount it previously offered to customers and limited future stock sales under this program to approximately 100,000 shares in each of the three subscription periods during the year. The dividend reinvestment program ("DRP") continues to offer a 5% discount on the purchase of Company Stock with reinvested dividends. As of the December 1995 dividend payment, holders of 18% of the common shares outstanding participated in the DRP.

PSW's 1996 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be $29,800, which is expected to be financed, along with $13,150 of debt maturities, $440 of sinking fund obligations and $1,500 of preferred stock redemptions through internally-generated funds, the revolving credit facility, equity investments from the Company, and issuance of new long-term debt. PSW has also entered into preliminary agreements to acquire six other water systems for a combined purchase price of approximately $20,600, including, subject to final negotiations, the issuance of up to $5,000 of the Company's preferred stock. In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to PSW's service territories. The cash needed for these acquisitions would be funded initially with short-term debt with subsequent repayment primarily from the proceeds of long-term debt.

Future utility construction in the period 1997 through 2000, including recurring programs, such as the ongoing replacement of water meters, the rehabilitation of water mains and additional transmission mains to meet customer demands, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to require aggregate expenditures of approximately $115,000. The Company anticipates that approximately 50% of these expenditures will require external financing. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

PSW's ability to finance its future construction programs, as well as its acquisition activities, depends on its ability to attract the necessary external financing and maintain or increase internally-generated funds. Rate orders permitting compensatory rates of return on invested capital and timely rate adjustments will be required to allow PSW to achieve an adequate level of earnings to enable it to secure the capital it will need and to maintain satisfactory debt coverage ratios.

Operating cash flow from PSW, along with external financings, will enable the Company to pursue its capital expenditure programs, pay dividends and supply the working capital required by the Company in 1996. Management believes that with continued regulatory support, it will be able to obtain the external financing that it will need.

Capitalization

The following table summarizes PSC's capitalization during the past five years:

December 31,	1995	1994	1993	1992	1991
Long-term debt*	53.5%	49.9%	50.7%	58.1%	64.4%
Preferred stock with mandatory redemption*	2.0	3.3	3.4	3.6	3.7
Common stockholders' equity	44.5	46.8	45.9	38.3	31.9
	100.0%	100.0%	100.0%	100.0%	100.0%

*includes current portion.

The changes in the capitalization ratios result from the issuance of common stock over the past five years, the retirement of parent company debt in 1992 and the issuance of debt by PSW to finance its acquisitions and capital program.

Impact of Recent Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of" ("SFAS 121"). SFAS 121 requires that the Company's long-lived assets, which consist primarily of Utility Plant in Service, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. SFAS 121 also requires that rate-regulated enterprises recognize an impairment for the amount of costs excluded when the PUC excludes all or part of a cost from the enterprise's rate base. The Company intends to adopt this standard as required in 1996. The implementation of SFAS 121 is not expected to have an impact on the results of operations or financial position of the Company, since PSW's rates are designed to provide a recovery of its depreciation expense and cost of capital associated with its utility plant. The PUC has not excluded any of PSW's utility plant from rate base.

In October 1995, the FASB issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") which encourages the fair value based method of accounting for stock options and similar equity instruments granted to employees. This method requires that the fair value of equity instruments granted to employees be recorded as compensation expense. However, SFAS 123 allows for the continued use of the intrinsic value based method, which in most cases, does not result in a charge to earnings. The Company does not expect to change its method of accounting for stock options. However, the Company will adopt the disclosure requirements of SFAS 123 when required in 1996.

Dividends on Common Stock

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

	Cash dividend per share	Income per share from continuing operations	Payout ratio
1991	$ 1.00	$ 1.29	78%
1992	1.04	1.23	85
1993	1.07	1.27	84
1994	1.10	1.35	81
1995	1.14	1.50	76

Dividends have averaged approximately 81% of income from continuing operations during this period. In 1995, the annual dividend increased by 3.6% to $1.16 beginning with the September 1995 dividend.

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

Philadelphia Suburban Corporation and Subsidiaries

Years ended December 31,	1995	1994	1993	1992	1991
PER COMMON SHARE:					
Income from continuing operations (a)	$1.50	$1.35	$1.27	$1.23	$1.29
Net income	1.53	1.35	1.27	0.50	0.62
Cash dividends	1.14	1.10	1.07	1.04	1.00
Return on average shareholders equity (b)	12%	11%	11%	11%	12%
Book value at year end	$12.88	$12.27	$11.89	$10.88	$10.66
Market value at year end	20.75	18.13	18.38	16.00	15.75
INCOME STATEMENT HIGHLIGHTS:					
Earned revenues (b)	$117,044	$108,636	$101,244	$93,307	$88,648
Depreciation and amortization (b)	11,557	10,330	10,935	9,446	8,253
Interest and debt expenses (b) (c)	15,178	13,636	13,169	15,676	14,377
Income before income taxes (b)	30,931	27,209	24,261	18,661	17,260
Provision for income taxes (b)	12,901	11,571	10,426	8,035	7,081
Income from continuing operations (a)	18,030	15,638	13,835	10,626	10,179
Net income	18,400	15,638	13,835	4,292	4,889
BALANCE SHEET HIGHLIGHTS:					
Total assets	$518,051	$460,062	$440,935	$367,096	$350,560
Property, plant and equipment, net (b)	436,905	385,709	366,230	345,610	320,974
Common stockholders equity	156,976	143,795	135,934	106,971	85,621
Preferred stock with mandatory redemption (d)	7,143	10,000	10,000	10,000	10,000
Long-term debt (d)	188,985	153,082	150,176	162,089	172,626
Total debt	195,440	157,132	150,995	163,048	172,786
ADDITIONAL INFORMATION:					
Net cash flows from operating activities (b)	$32,954	$29,730	$27,049	$23,785	$18,198
Capital additions (b) (e)	33,182	27,379	27,958	21,719	22,335
Dividends on common stock	13,546	12,637	11,629	8,866	7,859
Number of metered water customers	264,865	249,533	247,195	244,788	236,616
Number of shareholders of common stock	12,209	11,243	10,811	9,863	6,408
Common shares outstanding (000)	12,189	11,718	11,430	9,832	8,034
Employees (full-time) (b)	535	525	523	526	526

(a) 1992 operating results are before extraordinary charge of $834 or $0.10 per share.
(b) Continuing operations only.
(c) Includes dividend on preferred stock and is net of allowance for funds used during construction.
(d) Includes current portion.
(e) Excludes payments for acquired water systems of $26,351 in 1995, $612 in 1994, $1,323 in 1993 and $9,128 in 1992.

Exhibit 21

(unaudited)

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists all of the subsidiaries of the Company at December 31, 1995:

Philadelphia Suburban Water Company (Pa.)
Utility & Municipal Services, Inc. (Pa.)
PSC Services, Inc. (Del.)

Exhibit 23

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Philadelphia Suburban Corporation

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Equity Compensation Plan No. 033-53689), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option Plan No.33-27032), (1982 Stock Option Plan No. 2-81757); on Form S-3 (Dividend Reinvestment and Optional Stock Purchase Plan No. 33-64281); and on Form S-3 (Customer Stock Purchase Plan No. 33-64301) of Philadelphia Suburban Corporation of our report dated February 6, 1996, related to the consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1995 and 1994 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1995, which report is incorporated by reference in the December 31, 1995 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
March 25, 1996

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This schedule contains summary financial information extracted from the consolidated balance sheets at December 31, 1995, and the consolidated statements of income and cash flow for the year ended December 31, 1995, and is qualified in its entirety by reference to such financial statements.
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