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, 1997 — 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	19010-3489
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

Yes __X__ No _____

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 2, 1998. $526,051,571

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 2, 1998, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of each of the registrant's classes of common stock as of March 2, 1998. 27,500,608

Documents incorporated by reference

(1) Portions of registrant's 1997 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 21, 1998 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 1997 Annual Report to Shareholders filed as Exhibit 13.5 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 approximately 288,000 residential, commercial, industrial and public customers. PSW's service territory covers 464 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 for water service, except for fire hydrant service. In addition, PSW provides water service to approximately 6,400 customers through an operating and maintenance contract with the Horsham Township Authority which is contiguous to its service territory. Based on the 1990 census, PSW estimates that the total number of persons currently served is approximately 950,000. 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 1.0% per annum for the last three years. Including acquisitions, the customer base increased at an annual compound growth rate of 4.9% over the last three years.

Operating revenues during the twelve months ended December 31, 1997 were derived approximately as follows:

66.8%	from residential customers
21.1%	from commercial customers
3.9%	from industrial customers
1.1%	from public customers
6.3%	from fire protection services
0.8%	from sales to other water utilities and miscellaneous customers
100.0%	

During 1997, PSW made the following acquisitions and obtained related service territory rights: in January, the water utility assets of Cherry Water Company; in September, the water utility assets of Perkiomen Township Authority; and in September, both the water and wastewater utility assets of the Peddler's View Utility Company. The systems acquired in 1997 incorporate two square miles of service area near PSW's existing territory. The total purchase price for the three water systems and wastewater system acquired in 1997 was $1,226,000. The annual revenues from these systems approximate $300,000, and revenues included in the consolidated financial statements during the period owned by PSW were $175,000.

Since December 1992, PSW has acquired 21 local water systems and two small wastewater utilities. During 1996, PSW made the following acquisitions and obtained related service territory rights: in October, the water utility assets of Hatboro Borough Authority; in November, Utility Group Services Corporation ("UGS") which owned three water utilities and a wastewater utility; in December, the water utility assets of Bristol Borough Water and Sewer Authority; and at various times during 1996 the water utility assets of three smaller water systems. In May 1995, PSW purchased the water utility assets of Media Borough and, at various times during 1995, PSW acquired four smaller water systems. During various times in 1994, 1993, and 1992 PSW acquired the water utility assets of five water systems. Combined, the 18 water systems and one wastewater system acquired since December 1992 and prior to 1997 added 134 square miles of service territory near or adjacent to PSW's service territory and had revenues of approximately $14,571,000 in 1997.

In addition, in January 1998, PSW purchased the water utility assets of West Chester Area Municipal Authority ("West Chester") for $22,400,000 in cash, subject to minor adjustment related to the final value of current assets transferred and recent capital expenditures. The West Chester service territory covers 16 square miles and is contiguous to PSW's territory. The annual revenues

of the West Chester system is approximately $4,500,000. PSW has also entered into a letter of intent to acquire the Flying Hills Water Company ("Flying Hills") in a purchase transaction for approximately 43,000 shares of the Company's Common Stock. This transaction, which is subject to final negotiation and the approval of the Pennsylvania Public Utility Commission, is expected to be completed in the first quarter of 1998. The Flying Hills system covers a one square mile area in Berks County near Reading, Pennsylvania and is within 16 miles of the existing PSW system. The annual revenues of the Flying Hills system is approximately $200,000.

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

	1997	1996	1995
Revenues from water sales (000's omitted)			
Residential	$ 87,783	$ 79,056	$ 78,082
Commercial	27,807	26,504	24,473
Industrial	5,126	4,823	4,533
Public	1,496	1,373	1,252
Fire protection	8,323	8,140	7,421
Other	995	438	617
Tax Surcharge (credit)	--	(1)	(505)
Distribution System Improvement Charge	1,104	--	--
Total	$ 132,634	$ 120,333	115,873
Water sales (million gallons)			
Residential	19,142	17,228	17,610
Commercial	8,819	8,236	7,983
Industrial	2,302	1,768	1,919
Public	396	354	335
Fire protection - metered	73	84	51
Other	750	25	124
Total	31,482	27,695	28,022
System delivery by source (million gallons)			
Surface (including Upper Merion reservoir)	29,470	27,278	26,904
Wells	6,378	5,136	4,830
Purchased	2,023	2,055	2,077
Total	37,871	34,469	33,811
Number of metered customers (end of year)*			
Residential	268,550	265,746	248,500
Commercial	13,512	13,422	12,019
Industrial	708	716	554
Public	823	797	775
Fire protection	3,911	3,449	3,006
Other	12	11	11
Total	287,516	284,141	264,865
Average consumption per customer in gallons	110,143	103,206	109,084

* Excludes customers served under operating and maintenance contracts.

Water supplies and usage. PSW's principal supply of water is surface water from the Schuylkill River, Delaware 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 holds the appropriate water rights and regulatory approvals to use these sources. PSW has five impounding reservoirs and has six 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. PSW's dams are in compliance with these requirements in all material respects.

PSW's surface supplies are supplemented by 61 wells. PSW also has interconnections with: the Chester Water Authority, which provides for a maximum supply of up to 6.4 million gallons per day ("mgd"); and the Bucks County Water and Sewer Authority, which provides for a supply of up to 7.0 mgd. Agreements regarding these 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 all of the sources described 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	104.8 mgd
Upper Merion Reservoir	7.2
Wells	22.8
Purchased supplies	8.2
Total	143.0 mgd

During periods of normal precipitation, the water available is more than the minimum shown above. Under normal operating conditions, PSW can deliver a maximum of 167.0 mgd to its distribution system for short periods of time. The average daily sendout for 1997, 1996 and 1995 was 103.8, 94.2 and 92.6 mgd, respectively.

The maximum demand ever placed upon PSW's facilities for one month occurred during July 1997, when sendout averaged 120.62 mgd. The peak day of record occurred during July 1997 when water use reached 142.5 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 extended periods of dry weather increases consumption. 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 and energy supplies have been sufficient to meet PSW's customer demand. In December 1996, the Governor of Pennsylvania signed into law the Electricity Generation Customer Choice and Competition Act ("Electric Act") which provides for the restructuring of the electric utility industry in Pennsylvania. The Electric Act requires the unbundling of electric services into separate generation, transmission and distribution services with open competition for generation. PSW believes that the Electric Act will have little or no impact on its ability to purchase the electric power it requires to operate its business.

Adequacy of water supplies. The Delaware River Basin, which is the drainage area of the Delaware River from New York State to Delaware, periodically experiences water shortages, particularly 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 October 1997, the DRBC issued a drought warning for the Delaware River Basin which includes PSW's service territory. The DRBC lifted the drought warning in January 1998. Under a drought warning, the DRBC asks for voluntary restrictions on water use, particularly non-essential uses of water. 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. The drought emergency was lifted by the end of 1995. Because these actions were issued at 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 PSW revenues. Throughout the drought warning and drought emergency described above, 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 preceding five 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 has been subject to competition only with respect to potential customers who also may have access to the service of another water supplier, wells, 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 supported by anticipated revenues and borne by the utility. Generally, construction costs beyond those supported by anticipated revenues must be borne by the applicant. The formula used to determine a utility's investment requires that revenues from the bona fide service applicant offset the interest, depreciation and incremental operating expense associated with the investment. Under the rule, PSW is required to invest $4,000 per bona fide service applicant in a main extension prior to requiring any customer contribution.

In 1996, the PUC approved a mechanism, the Distribution System Improvement Charge ("DSIC"), which allows Pennsylvania water utilities to add a surcharge to their water bills to offset the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating distribution systems. The DSIC mechanism is intended to eliminate many of the disincentives faced by water utilities in rehabilitating their distribution systems. These disincentives, often referred to as regulatory lag, are due to the rate making process which, prior to the establishment of the DSIC mechanism, required water utilities to absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues. The DSIC may be adjusted quarterly based on additional qualified capital expenditures made in the previous quarter, but may never exceed 5% of the base rates in effect. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective.

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 current 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. All PSW's surface water supplies are filtered.

On August 6, 1996, the President signed into law the reauthorization of the SDWA. The new Act places a greater emphasis on the cost/benefit of regulating additional substances by requiring definitive research on the impact of such regulations. The reauthorized SDWA focuses regulations on contaminants known to be of public health concern based on occurrence, health risks and cost benefit considerations. The new Act eliminated the previous requirement of the 1986 SDWA Amendments that had required the EPA to promulgate MCL's for many chemicals not previously regulated and mandated further MCL's every three years. The new Act also specifies that the EPA shall study radon, arsenic and sulfates and propose respective rulemakings in 1999, 2000 and 2001 if these chemicals are deemed to be a threat to public health. The reauthorized SDWA 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 again in 1997. The results of both studies 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, 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 MCL's. Future monitoring will be required, but no major treatment modifications are anticipated as a result of these regulations.

In May 1996, the EPA issued the first rule of a three-rule package addressing Disinfection By-Products ("DBP") and monitoring of disease-causing micro-organisms. DBP's are chemicals formed during the drinking water treatment process. The first rule is an Information Collection Rule ("ICR") designed to collect data to be used in developing further rules. As required, PSW began sampling under the requirements of the ICR in July 1997 and expects to complete the ICR phase in December 1998. Studies by the EPA on the data collected may result in new treatment standards and processes.

PSW is also subject to other environmental statutes administered by the EPA and DEP. These include the Federal Clean Water Act ("FCWA") and the Resource Conservation and Recovery Act ("RCRA"). Under the FCWA, the Company must obtain National Pollutant Discharge Elimination System ("NPDES") permits for discharges from its water treatment stations. PSW currently maintains five NPDES permits relating to its water treatment plants, which are subject to renewal every five years. PSW 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.

Item 1, Continued

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 engineering consultants 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 by DEP of PSW's three residual waste disposal sites is expected to be issued in 1998 in accordance with regulatory requirements.

In 1996, PSW acquired the Little Washington Wastewater Company ("LWW"), a 317 customer wastewater system and in 1997, LWW acquired the wastewater system of Peddler's View Utility Company, which serves 196 customers. Both systems are located within the service territory of PSW, are subject to regulation by the EPA and DEP, and are subject to environmental statutes, including FCWA and RCRA. Both systems currently maintain permits for their wastewater treatment stations in accordance with FCWA and are presently in compliance with all standards and treatment requirements promulgated to date.

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 rates. However, under current law, such capital investments 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, 1997, the Registrant employed a total of 531 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, 1997 for a four-year period. Management considers its employee relations to be good.

Item 2. Properties.

The Registrant believes that the facilities used in the operation of its business are in good 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	17	Pumping stations and treatment buildings	180,000
Pennsylvania	23	Well stations	App. 600 ea.
Pennsylvania	38	Well stations	App. 150 ea.
Pennsylvania	49	Booster stations	App. 1,100 ea.

In addition, PSW also owns 68 storage facilities for treated water throughout its service territory with a combined capacity of 160.81 million gallons and five surface water impounding reservoirs. The water utility also owns approximately 3,469 miles of transmission and distribution mains, has 287,516 active metered services and 13,519 fire hydrants.

Item 2, Continued

PSW's properties referred to herein, with certain minor exceptions which do not materially interfere with their use, are owned by PSW 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 various legal proceedings in which the Company is involved. Although the results of legal proceedings cannot be predicted with certainty, 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.

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 1997.

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 2, 1998, there were approximately 14,170 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:

1997	First	Second	Third	Fourth	Total Year
Earned revenues	$ 31,021	$ 33,315	$ 36,754	$ 35,081	$ 136,171
Operating expenses	13,068	13,295	14,466	15,070	55,899
Net income available to common stock	4,460	5,778	7,323	5,432	22,993
Basic net income per common share	0.17	0.23	0.28	0.21	0.89
Diluted net income per common share	0.17	0.22	0.28	0.21	0.88
Dividend paid per common share	0.152	0.152	0.159	0.159	0.622
Price range of common stock					
- high	15.47	15.10	18.00	22.18	22.18
- low	11.72	11.44	14.07	15.10	11.44
1996					
Earned revenues	$ 29,290	30,683	$ 30,831	$ 31,699	$ 122,503
Operating expenses	13,070	12,614	11,757	14,174	51,615
Income, continuing operations	3,968	5,281	5,847	4,661	19,757
Basic income per share, continuing operations	0.16	0.21	0.24	0.18	0.79
Diluted income per share, continuing operations	0.16	0.21	0.23	0.18	0.78
Income, discontinued operations	--	--	365	600	965
Basic and diluted income per share, discontinued operations	--	--	0.02	0.02	0.04
Net income available to common stock	3,968	5,281	6,212	5,261	20,722
Basic net income per common share	0.16	0.21	0.26	0.20	0.83
Diluted net income per common share	0.16	0.21	0.25	0.20	0.82
Dividend paid per common share	0.145	0.145	0.152	0.152	0.594
Price range of common stock					
- high	11.57	12.57	12.94	14.91	14.91

- low	10.26	11.25	11.63	12.38	10.26

All per share data as presented has been adjusted for the 1997 common stock split effected in the form of a stock distribution. High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape.

Item 5, Continued

Following is a recent history, adjusted for the 1997 4-for-3 common stock split in the form of a stock distribution, of income from continuing operations and common dividends of the Company:

	Cash dividend per common share	Basic income per share from continuing operations	Dividend payout ratio
1993	$0.54	$0.64	84%
1994	0.55	0.68	81%
1995	0.57	0.75	76%
1996	0.59	0.79	75%
1997	0.62	0.89	70%

Dividends have averaged approximately 77% of income from continuing operations during this period. During 1997, the Board of Directors increased the dividend rate by 7%. As a result, beginning with the dividend payable in March 1998, the annual dividend rate increased to $.65 per share.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of the Company's 1997 Annual Report to Shareholders filed as Exhibit 13.5 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 1997 Annual Report to Shareholders filed as Exhibit 13.5 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" "Consolidated Statements of Capitalization" and "Notes to Consolidated Financial Statements" from the portions of the Company's 1997 Annual Report to Shareholders filed as Exhibit 13.5 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 1997 Annual Report to Shareholders filed as Exhibit 13.5 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 21, 1998, 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 herein by reference.

Executive Officers of the Registrant

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

Name	Age	Position with the Registrant and date of election (1)
Nicholas DeBenedictis	52	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	51	Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to present) (3)
Roy H. Stahl	45	Senior Vice President and General Counsel (April 1991 to present) (4)
Michael P. Graham	49	Senior Vice President - Finance and Treasurer (March 1993 to present) (5)
Morrison Coulter	61	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. Executive Compensation

The information appearing in the sections captioned "Executive Compensation" of the Proxy Statement relating to the May 21, 1998, 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 herein by reference.

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 21, 1998, 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 herein by reference.

Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Certain Relationships and Related Transactions" of the Proxy Statement relating to the May 21 1998, 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 herein by reference.

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, 1997 and 1996

Consolidated Statements of Income - 1997, 1996 and 1995

Consolidated Statements of Cash Flow - 1997, 1996, and 1995

Consolidated Statements of Capitalization - December 31, 1997 and 1996

Notes to Consolidated Financial Statements

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

Reports on Form 8-K.

Current Report on Form 8-K filed on December 3, 1997, responding to Item 5, Other Events. (Related to the Company's announcement of a dividend increase and the Company's plans for a four-for-three stock split in the form of a stock distribution to all shareholders of record on December 15, 1997).

Current Report on Form 8-K filed January 29, 1998, responding to Item 5, Other Events. (Related to the filing of the Company's audited consolidated balance sheets and statements of capitalization as of December 31, 1997 and 1996, its consolidated statements of income and cash flow for each of the years in the three-year period ended December 31, 1997, its Management's Discussion and Analysis of

Item 14, Continued

Financial Condition and Results of Operations related to its fiscal year ended December 31, 1997, and its Summary of Selected Financial Data for each of the years in the five-year period ended December 31, 1997.)

Current Report on Form 8-K filed February 6, 1998, responding to Item 5, Other Events. (Related to the Company's Board of Directors adopting a new Shareholder Rights Plan (the "New Plan") on February 3, 1998 that was effective March 1, 1998. The New Plan, which expires March 1, 2008, is substantially the same as the former Shareholder Rights Plan that expired on March 1, 1998 except that the beneficial ownership threshold that would trigger the exercisability of the rights issued to purchase Company Common Stock was reduced from 25% of the outstanding Common Stock to 20% of the outstanding Common Stock.)

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

EXHIBIT 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 (17) (Exhibit 3.2)	--
3.3	Amendment to Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares to 41,770,819 and to provide that 40,000,000 of such shares be shares of Common Stock (17) (Exhibit 3.3)	--
3.4	Amendment to Amended and Restated Articles of Incorporation, as amended, designating the Series B Preferred Stock (17) (Exhibit 3.4)	--
3.5	Amendment to Section 3.03 and addition of Section 3.17 to Bylaws (19) (Exhibits 1 and 2)	--
3.6	Amendment to Amended and Restated Articles of Incorporation, designating the terms of the Series A Junior Participating Preferred Shares	21
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)	--

Exhibit No.		Page No.
4.10	Twenty-third Supplemental Indenture dated as of April 1, 1987 (8) (Exhibit 4.4)	--
4.11	Twenty-fourth Supplemental Indenture dated as of June 1, 1988 (9) (Exhibit 4.5)	--
4.12	Twenty-fifth Supplemental Indenture dated as of January 1, 1990 (10)(Exhibit 4.6)	--
4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	--
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	--
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (12) (Exhibit 4.15)	--
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A. and CoreStates 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)	--
4.19	First Amendment to Revolving Credit Agreement dated as of May 22, 1995, between hiladelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A., Meridian Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.19)	--

4.20	Second Amendment to Revolving Credit Agreement dated as of July 21, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A., Meridian Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.20)	--
4.21	Third Amendment to Revolving Credit Agreement dated as of December 20, 1996, between hiladelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A., CoreStates Bank, N.A. dated as of March 17, 1994 (17) (Exhibit 4.21)	--
4.22	Thirty-First Supplemental Indenture dated as of July 1, 1997 (18) (Exhibit 4.22)	--
4.23	Fourth Amendment to Revolving Credit Agreement dated as of January 15, 1998, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A., and CoreStates Bank, N.A. dated as of March 17, 1994	26
4.24	Rights Agreement, dated as of March 1, 1998 between Philadelphia Suburban Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent (20) (Exhibit 1)	--

Exhibit No.		Page No.
10.1	1982 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.1)	--
10.2	1988 Stock Option Plan, as amended and restated effective May 21, 1992* (1) (Exhibit 10.2)	--
10.3	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* (16) (Exhibit 10.10)	--
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)	--
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* (16) (Exhibit 13.4)	--
10.16	Amendment 1994-2 to 1994 Equity Compensation Plan, as amended* (17) (Exhibit 10.16)	--
10.17	1997 Annual Cash Incentive Compensation Plan* (17) (Exhibit 10.17)	--
10.18	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997* (17) (Exhibit 10.18)	--
10.19	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997* (17) (Exhibit 10.19)	--
10.20	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Michael P. Graham, dated as of January 1, 1997* (17) (Exhibit 10.20)	--

Exhibit No.		Page No.
10.21	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997* (17) (Exhibit 10.21)	--
10.22	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997* (17) (Exhibit 10.22)	--
10.23	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan* (17) (Exhibit 10.23)	--
10.24	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996* (17) (Exhibit 10.24)	--
10.25	First Amendment to Supplemental Executive Retirement Plan* (17) (Exhibit 10.25)	--
10.26	Placement Agency Agreement between Philadelphia Suburban Water Company and A.G. Edwards and Sons, Inc., Janney Montgomery Scott Inc., HSBC Securities, Inc., and PaineWebber Incorporated (18) (Exhibit 10.26)	
10.27	1998 Annual Cash Incentive Compensation Plan*	41
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 (16) (Exhibit 13.3)	--
13.4	Selected portions of Annual Report to Shareholders for the year ended December 31, 1996 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1996	--
13.5	Selected portions of Annual Report to Shareholders for the year ended December 31, 1997 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1997	46
21.	Subsidiaries of Philadelphia Suburban Corporation	84
23.	Consent of Independent Auditors	85
24.	Power of Attorney (set forth as a part of this report)	19
27.	Financial Data Schedule	86

- 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.

(16) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1995.

(17) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1996.

(18) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.

(19) Filed as an Exhibit to Form 8-K filed August 7, 1997.

(20) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed on March 17, 1998.

* 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 Nicholas DeBenedictis

Nicholas DeBenedictis
President and Chairman

Date: March 20, 1998

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
- -----------------------------
Mary C. Carroll
Director

Nicholas DeBenedictis

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

G. Fred DiBona, Jr.
- -----------------------------
G. Fred DiBona, Jr.
Director

Richard H. Glanton

Richard H. Glanton
Director

Michael P. Graham
- -----------------------------
Michael P. Graham
Senior Vice President-Finance and
Treasurer (principal financial and
accounting officer)

Alan Hirsig
Director

John F. McCaughan
- -----------------------------
John F. McCaughan
Director

Richard L. Smoot

Richard L. Smoot
Director

- -----------------------------
Harvey J. Wilson
Director

EXHIBIT 3.6

Part A Article IV of the Amended and Restated Articles of Incorporation of Philadelphia Suburban Corporation is hereby amended and restated as set forth below:

Series A Preferred Shares. The first series of the Series Preferred Stock, par value $1.00 per share, shall consist of 100,000 shares and shall be designated as Series A Junior Participating Preferred Shares (the "Series A Preferred Shares").

A. Special Terms of the Series A Preferred Shares

Section 1. Dividends and Distributions.

(a) The rate of dividends payable per share of Series A Preferred Shares on the first day of January, April, July and October in each year or such other quarterly payment date as shall be specified by the Board of Directors (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of the Series A Preferred Shares, shall be (rounded to the nearest cent) equal to the greater of (i) $10.00 or (ii) subject to the provision for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in cash, based upon the fair market value at the time the non-cash dividend or other distribution is declared or paid as determined in good faith by the Board of Directors) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, $.50 par value per share, of the Corporation since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of the Series A Preferred Shares. Dividends on the Series A Preferred Shares shall be paid out of funds legally available for such purpose. In the event the Corporation shall at any time after March 1, 1998 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amounts to which holders of Series A Preferred Shares were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying each such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Dividends shall begin to accrue and be cumulative on outstanding Series A Preferred Shares from the Quarterly Dividend Payment Date next preceding the date of issue of such Series A Preferred Shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of Series A Preferred Shares entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the Series A Preferred Shares in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

Section 2. Voting Rights. In addition to any other voting rights required by law, the holders of Series A Preferred Shares shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each Series A Preferred Share shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of Series A Preferred Shares were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) In the event that dividends upon the Series A Preferred Shares shall be in arrears to an amount equal to six full quarterly dividends thereon, the holders of such Series A Preferred Shares shall become entitled to the extent hereinafter provided to vote noncumulatively at all elections of directors of the Corporation, and to receive notice of all shareholders' meetings to be held for such purpose. At such meetings, to the extent that directors are being elected, the holders of such Series A Preferred Shares voting as a class shall be entitled solely to elect two members of the Board of Directors of the Corporation; and all other directors of the Corporation shall be elected by the other shareholders of the Corporation entitled to vote in the election of directors. Such voting rights of the holders of such Series A Preferred Shares shall continue until all accumulated and unpaid dividends thereon shall have been paid or funds sufficient therefor set aside, whereupon all such voting rights of the holders of shares of such series shall cease, subject to being again revived from time to time upon the reoccurrence of the conditions above described as giving rise thereto.

At any time when such right to elect directors separately as a class shall have so vested, the Corporation may, and upon the written request of the holders of record of not less than 20% of the then outstanding total number of shares of all the Series A Preferred Shares having the right to elect directors in such circumstances shall, call a special meeting of holders of such Series A Preferred Shares for the election of directors. In the case of such a written request, such special meeting shall be held within 90 days after the delivery of such request, and, in either case, at the place and upon the notice provided by law and in the By-laws of the Corporation; provided, that the Corporation shall not be required to call such a special meeting if such request is received less than 120 days before the date fixed for the next ensuing annual or special meeting of shareholders of the Corporation. Upon the mailing of the notice of such special meeting to the holders of such Series A Preferred Shares, or, if no such meeting be held, then upon the mailing of the notice of the next annual or special meeting of shareholders for the election of directors, the number of directors of the Corporation shall, ipso facto, be increased to the extent, but only to the extent, necessary to provide sufficient vacancies to enable the holders of such Series A Preferred Shares to elect the two directors hereinabove provided for, and all such vacancies shall be filled only by vote of the holders of such Series A Preferred Shares as hereinabove provided. Whenever the number of directors of the Corporation shall have been increased, the number as so increased may thereafter be further increased or decreased in such manner as may be permitted by the By-laws and without the vote of the holders of Series A Preferred Shares, provided that no such action shall impair the right of the holders of Series A Preferred Shares to elect and to be represented by two directors as herein provided.

So long as the holders of Series A Preferred Shares are entitled hereunder to voting rights, any vacancy in the Board of Directors caused by the death or resignation of any director elected by the holders of Series A Preferred Shares, shall, until the next meeting of shareholders for the election of directors, in each case be filled by the remaining director elected by the holders of Series A Preferred Shares having the right to elect directors in such circumstances.

Upon termination of the voting rights of the holders of any series of Series A Preferred Shares the terms of office of all persons who shall have been elected directors of the Corporation by vote of the holders of Series

A Preferred Shares or by a director elected by such holders shall forthwith terminate.

(c) Except as otherwise provided herein, in the Articles of Incorporation of the Corporation or by law, the holders of Series A Preferred Shares and the holders of Common Stock (and the holders of shares of any other series or class entitled to vote thereon) shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

Section 3. Reacquired Shares. Any Series A Preferred Shares purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued Series Preferred Stock and may be reissued as part of a new series of Series Preferred Stock to be created by resolution or resolutions of the Board of Directors.

Section 4. Liquidation, Dissolution or Winding Up. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Series A Preferred Shares shall be entitled to receive the greater of (a) $100.00 per share, plus accrued dividends to the date of distribution, whether or not earned or declared, or (b) an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of Common Stock. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount to which holders of Series A Preferred Shares were entitled immediately prior to such event pursuant to clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 5. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the Series A Preferred Shares shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Shares shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 6. No Redemption. The Series A Preferred Shares shall not be redeemable.

Section 7. Ranking. The Series A Preferred Shares shall rank junior to all other series of the Corporation's Series Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 8. Fractional Shares. Series A Preferred Shares may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Shares.

Exhibit 4.23

FOURTH AMENDMENT TO REVOLVING CREDIT AGREEMENT

FOURTH AMENDMENT TO REVOLVING CREDIT AGREEMENT ("Fourth Amendment"), dated as of January 15, 1998, among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Borrower"), the Banks signatory hereto (the "Banks"), and Mellon Bank, N.A., in its capacity as agent for the Banks hereunder (hereafter the "Agent").

W I T N E S S E T H

WHEREAS, the Borrower, the Agent and the Banks are parties to a Revolving Credit Agreement dated as of March 17, 1994, as amended by a First Amendment to Revolving Credit Agreement dated as of May 22, 1995, and as further amended by a letter agreement dated July 21, 1995, and as further amended by a Third Amendment to Revolving Credit Agreement dated as of December 20, 1996 (as amended, modified and/or extended, the "Loan Agreement"), pursuant to which the Banks agreed to make available to the Borrower certain credit facilities upon the terms and conditions specified in the Loan Agreement; and

WHEREAS, the parties wish to amend certain terms and conditions of the Loan Agreement, as hereinafter set forth.

NOW, THEREFORE, in consideration of the promises and mutual agreements herein contained, the parties hereto, intending to be legally bound hereby, agree to amend the Loan Agreement as herein stated.

1. Effect of Prior Agreements.

This Fourth Amendment is intended to amend the Loan Agreement as it has been in effect to the date hereof and as it shall be amended on and after the date hereof. All capitalized terms used herein as defined terms shall have the meanings ascribed to them in the Loan Agreement unless herein provided to the contrary.

2. Amendments.

(a) The definition of "Revolving Credit Commitment Termination Date" in Article I of the Loan Agreement is hereby amended in its entirety to read as follows:

> "Revolving Credit Commitment Termination Date" means the earlier of (A) January 1, 2000, (B) the date on which the Revolving Credit Commitments are terminated in whole pursuant to Section 2.03(a) hereof, or (C) the date the Revolving Credit Commitments are terminated pursuant to Article VIII hereof.

(b) Section 2.01 of the Loan Agreement is hereby amended in its entirety to read as follows:

> 2.01 The Revolving Credit Commitment. The maximum aggregate amount the Banks shall be obligated to lend to the Borrower at any given time under this Agreement shall be Fifty Million Dollars ($50,000,000), as such amount may have been reduced under Section 2.03 hereof (the "Revolving Credit Commitment").

(c) Schedule 1.01(a) is hereby replaced with Third Replacement Schedule 1.01(a) attached hereto and made a part hereof. Any and all references to Schedule 1.01(a) shall be deemed to refer to Third Replacement Schedule 1.01(a).

3. Conditions. To induce the Agent and Banks to enter into this Fourth Amendment and to extend the Loans contemplated herein, the Borrower shall perform the following conditions to the Agent's and the Banks' satisfaction prior to the Banks' acting in reliance hereon:

(a) The Borrower shall execute and deliver to the Banks this Fourth Amendment, a Fourth Allonge to Revolving Credit Note in favor of each of the Banks (the "Fourth Allonges") and all other documents as the Banks may require; and

(b) The Borrower shall deliver all other documents and certificates reasonably requested by the Agent.

4. Representations and Warranties. The Borrower hereby represents and warrants that:

(a) The representations and warranties contained in the Loan Agreement and in each certificate, document or financial statement furnished by the Borrower delivered therewith or in connection with any other Loan Document are true and correct in all material respects on and as of the date hereof as though made on and as of the date hereof.

(b) No Event of Default, and to the Borrower's knowledge no event which with the passage of time or the giving of notice or both could become an Event of Default, exists on the date hereof, and no offsets or defenses exist against the Borrower's obligations under the Loan Agreement or the documents delivered in connection therewith.

(c) This Fourth Amendment and the Fourth Allonges have been duly authorized, executed and delivered so as to constitute the legal, valid and binding obligations of the Borrower, enforceable in accordance with their terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and general principles of equity.

(d) The execution, delivery and performance of this Fourth Amendment and the Fourth Allonges will not violate any applicable provision of law or judgment, order or regulation of any court or of any public or governmental agency or authority nor conflict with or constitute a breach of or a default under any instrument to which the Borrower is a party or by which the Borrower or the Borrower's properties are bound nor result in the creation of any lien, charge or encumbrance upon any assets of the Borrower.

(e) No approval, consent or authorization of, or registration, declaration or filing with, any governmental or public body or authority is required in connection with the valid execution, delivery and performance by the Borrower of this Fourth Amendment and the Fourth Allonges.

5. Reaffirmation. The Borrower hereby affirms and reaffirms to the Agent and the Banks all of the terms, covenants, and conditions contained in the Loan Agreement including, without limitation, those contained in Article VI of the Loan Agreement and agrees to abide thereby until all of the obligations to the Banks are satisfied and/or discharged in their entirety.

6. Miscellaneous.

(a) All terms, conditions, provisions and covenants in the Loan Agreement, the Notes, as amended by the Fourth Allonges, and all other Loan Documents delivered to the Agent and the Banks in connection therewith shall remain unaltered and in full force and effect except as modified or amended hereby and are hereby ratified and confirmed.

(b) This Fourth Amendment shall be governed by and construed according to the laws of the Commonwealth of Pennsylvania.

(c) This Fourth Amendment shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors and permitted assigns.

(d) This Fourth Amendment may be executed in one or more counterparts, and by different parties on different counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument, and in making proof of this Fourth Amendment it shall be necessary only to produce one counterpart.

(e) This Fourth Amendment shall have effect as of its date.

(f) To the extent an Event of Default exists on the date hereof, any and all undertakings of the Agent and the Banks under or pursuant to this Fourth Amendment shall not be deemed a waiver by the Agent or the Banks of any such Event of Default or any of the Agent's or the Banks' rights and remedies under the Loan Agreement and/or applicable law; and the Banks hereby reserve any and all such rights and remedies.

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment as of the day and year first above written.

ATTEST:

By: Patricia M. Mycek

Name: Patricia M. Mycek
Title: Secretary

PHILADELPHIA SUBURBAN WATER COMPANY

By Michael P. Graham

Name: Michael P. Graham
Title: Senior Vice President - Finance & Treasurer
Address: 762 Lancaster Avenue
Bryn Mawr, PA 19010
Tel. No: (610) 645-1087
Telecopy: (610) 645-1061

MELLON BANK, N.A.

By: Anthony R. Caringi

Name: Anthony R. Caringi
Title: Vice President
Address: Plymouth Meeting
Executive Campus
610 West Germantown Pike
Suite 200
Plymouth Meeting, PA 19462
Tel. No: (610) 941-4182
Telecopy: (610) 941-4136

PNC BANK, NATIONAL ASSOCIATION

By: Frank Pugliese

Name: Frank Pugliese
Title: Banking Officer
Address: Valley Forge Regional
Banking Center, Suite 200
1000 West Lakes Drive
Berwyn, PA 19312
Tel. No: (610) 725-5731
Telecopy: (610) 725-5799

FIRST UNION NATIONAL BANK, (formerly known as First Union National Bank of North Carolina) (successor to First

Fidelity Bank, National Association)

By: Michael J. Kolosowsky

Name: Michael J. Kolosowsky
Title: Vice President
Address: One First Union Center
301 South College Street
Charlotte, NC 28288
Tel. No: (704) 383-0510
Telecopy: (704) 383-6670

CORESTATES BANK, N.A. (successor to
Meridian Bank)

By: Anthony D. Braxton

Name: Anthony D. Braxton
Title: Vice President
Address: FC 1-8-11-28
1339 Chestnut Street
P.O. Box 7618
Philadelphia, PA 19101-7618
Tel. No: (215) 786-4353
Telecopy: (215) 786-7721

THIRD REPLACEMENT SCHEDULE 1.01(a)

Name and Address of Bank	Amount of Commitment for Revolving Credit Loans	Percentage
1. Mellon Bank, N.A. Plymouth Meeting Executive Campus 610 West Germantown Pike Suite 200 Plymouth Meeting, PA 19462 Attn: Anthony R. Caringi Vice President Tel: (610) 941-4182 Fax: (610) 941-4136 Mellon Bank, N.A. Attn: Loan Administration, Flossie Bowers Mellon Independence Center 199-5220 701 Market Street Philadelphia, PA 19106 Tel: (215) 553-3414 Fax: (215) 553-4789 or (215) 553-1016	$31,666,666.67	63 1/3%
2. PNC Bank, National Association Valley Forge Regional Banking Center, Suite 200 1000 West Lakes Drive Berwyn, PA 19312 Attn: Frank Pugliese Banking Officer Tel: (610) 725-5731 Fax: (610) 725-5799	$6,666,666.66	13 1/3%
3. First Union National Bank of	$6,666,666.67	13 1/3%

North Carolina
One First Union Center
301 South College Street
Charlotte, NC 28288
Attn: Michael J. Kolosowsky
Vice President
Tel: (704) 383-0510
Fax: (704) 383-6670

4. CoreStates Bank, N.A. FC 1-8-11-28 1339 Chestnut Street P.O. Box 7618 Philadelphia, PA 19101-7618	$5,000,000.00	10 %

TOTAL REVOLVING CREDIT COMMITMENTS:	$50,000,000.00	100 %
	==============	===

FOURTH ALLONGE TO REVOLVING CREDIT NOTE
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER:	Philadelphia Suburban Water Company
PAYEE:	Mellon Bank, N.A.
DATE OF NOTE:	March 17, 1994
DUE DATE (AS AMENDED):	January 1, 2000
ORIGINAL PRINCIPAL AMOUNT:	$12,666,666.67
PRINCIPAL AMOUNT (AS AMENDED):	$31,666,666.67

This Allonge shall be and remain attached to and shall constitute an integral part of the above-described Revolving Credit Note from and after the date hereof.

The Revolving Credit Note is hereby amended by increasing the maximum principal amount permitted to be borrowed thereunder to $31,666,666.67.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Fourth Allonge to be executed by its duly authorized officer as of the 15th day of January, 1998.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: Patricia M. Mycek

By: Michael P. Graham

Michael P. Graham
Senior Vice President -
Finance and Treasurer

STATE OF Pennsylvania : SS.
COUNTY OF Montgomery :

On the 15th day of January, 1998, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Suzanne Falcone

Notary Public

My Commission expires:

August 27, 2001

FOURTH ALLONGE TO REVOLVING CREDIT NOTE
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER:	Philadelphia Suburban Water Company
PAYEE:	First Union National Bank, formerly known as First Union National Bank of North Carolina (successor to First Fidelity Bank, National Association)
DATE OF NOTE:	March 17, 1994 `
DUE DATE (AS AMENDED):	January 1, 2000
ORIGINAL PRINCIPAL AMOUNT:	$2,666,666.67
PRINCIPAL AMOUNT (AS AMENDED):	$6,666,666.67

This Allonge shall be and remain attached to and shall constitute an integral part of the above-described Revolving Credit Note from and after the date hereof.

The Revolving Credit Note is hereby amended by increasing the maximum principal amount permitted to be borrowed thereunder to $6,666,666.67.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Fourth Allonge to be executed by its duly authorized officer as of the 15th day of January, 1998.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: Patricia M. Mycek

By: Michael P. Graham

Michael P. Graham
Senior Vice President - Finance and Treasurer

STATE OF Pennsylvania : SS..
COUNTY OF Montgomery :

On the 15th day of January, 1998, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Suzanne Falcone

Notary Public

My Commission expires:

August 27, 2001

FOURTH ALLONGE TO REVOLVING CREDIT NOTE
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER:	Philadelphia Suburban Water Company
PAYEE:	CoreStates Bank, N.A. (successor to Meridian Bank)
DATE OF NOTE:	March 17, 1994
DUE DATE (AS AMENDED):	January 1, 2000
ORIGINAL PRINCIPAL AMOUNT:	$3,000,000.00
PRINCIPAL AMOUNT (AS AMENDED):	$5,000,000.00

This Allonge shall be and remain attached to and shall constitute an integral part of the above-described Revolving Credit Note from and after the date hereof.

The Revolving Credit Note is hereby amended by increasing the maximum principal amount permitted to be borrowed thereunder to $5,000,000.00.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Fourth Allonge to be executed by its duly authorized officer as of the 15th day of January, 1998.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

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

STATE OF Pennsylvania   :   SS..
COUNTY OF Montgomery   :

On the 15th day of January, 1998, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Suzanne Falcone

Notary Public

My Commission expires:

August 27, 2001

FOURTH ALLONGE TO REVOLVING CREDIT NOTE
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER:	Philadelphia Suburban Water Company
PAYEE:	PNC Bank, National Association
DATE OF NOTE:	March 17, 1994
DUE DATE (AS AMENDED):	January 1, 2000
ORIGINAL PRINCIPAL AMOUNT:	$4,000,000.00
PRINCIPAL AMOUNT (AS AMENDED):	$6,666,666.66

This Allonge shall be and remain attached to and shall constitute an integral part of the above-described Revolving Credit Note from and after the date hereof.

The Revolving Credit Note is hereby amended by increasing the maximum principal amount permitted to be borrowed thereunder to $6,666,666.66.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Fourth Allonge to be executed by its duly authorized officer as of the 15th day of January, 1998.

Attest:	PHILADELPHIA SUBURBAN WATER COMPANY
By: Patricia M. Mycek	By: Michael P. Graham
--------------------	-------------------------------
	Michael P. Graham Senior Vice President - Finance and Treasurer

STATE OF Pennsylvania : SS..
COUNTY OF Montgomery :

On the 15th day of January, 1998, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal.

Suzanne Falcone

Notary Public

My Commission expires:

August 27, 2001

PHILADELPHIA SUBURBAN WATER COMPANY

Secretary's Certificate

I, the undersigned, Corporate Secretary of PHILADELPHIA SUBURBAN WATER COMPANY (the "Company"), a corporation organized under the laws of the Commonwealth of Pennsylvania, DO HEREBY CERTIFY that by Unanimous Consent of the Board of Directors of said Company dated January 7, 1998, the resolution attached to this Secretary's Certificate as Exhibit A was unanimously adopted and has not been modified or rescinded and is now in full force and effect; and that the same is not in contravention or in conflict with the By-laws or Articles of Incorporation of said Company and is in accord therewith and pursuant thereto.

IN WITNESS WHEREOF, I have hereunto set my hand and the seal of said Company this 19th January, 1998.

Patricia M. Mycek

Patricia M. Mycek
Secretary

[CORPORATE SEAL]

PHILADELPHIA SUBURBAN CORPORATION
PHILADELPHIA SUBURBAN WATER COMPANY
1998 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 ("Chairman's Award") Program.

- The Plan is designed to provide an appropriate incentive to the officers and managers of the Company. The 1998 Management Incentive Program will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries.

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 and acquisition programs 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 1998, 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 70 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.............	greater than 90%	0%
	90	50
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan..................	100	100
	105	110
	greater than 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.

o Individual Performance

- Individual performance will be measured on the following scale:

Performance Measure Points	Individual Rating
0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%

-- In addition, up to 40 additional points and additional percentage points may be awarded to a participant at the discretion of the Chief Executive Officer for exemplary performance. Individual Performance points for the Chief Executive Officer are determined by the Executive Compensation and Employee Benefits Committee.

Sample Calculations

o Example 1

Salary	$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

o Example 2

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

Calculation:

$7,000	x	0	x	90%	=	0

o Example 3

-- Similarly, if individual Performance is rated below 70 points, no bonus would be earned regardless of the Company Rating.

Calculation:

$7,000	x	100%	x	0	=	0

EMPLOYEE RECOGNITION ("CHAIRMAN'S AWARD") PROGRAM

o In addition to the Management Incentive Program, the Company maintains an Employee Recognition Program known as the Chairman's Award program to reward employees not eligible for the management bonus plan for superior performance or a special action, or heroic deed, or for a project that positively impacts the performance or image of the Company.

o Awards will be made from an annual pool, not to exceed $175,000 (which represents approximately 2% 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 request permission from the Executive Compensation and Employee Benefits Committee for special awards under the program.

o 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.

o 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 13.5

SELECTED PORTION OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 1997

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In thousands of dollars, except per share amounts)

This report contains, in addition to historical information, forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding the Company's development, growth and expansion plans and the sufficiency of the Company's liquidity and capital. These statements are based on assumptions made by management regarding future circumstances over which the Company may have little or no control. Actual results may differ materially from these forward-looking statements for a number of reasons, including (i) the effects of regulation, (ii) changes in capital requirements and funding, and (iii) acquisitions. Following are selected five-year financial statistics for the Company:

Years ended December 31,	1997	1996	1995	1994	1993
Earned revenues	$136,171	$122,503	$117,044	$108,636	$101,244
Income from continuing operations before income taxes	$ 39,061	$ 33,749	$ 30,931	$ 27,209	$ 24,261
Operating Statistics					
Earned revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operating expenses	41.1%	42.1%	44.2%	46.3%	45.4%
Depreciation and amortization	10.7%	10.9%	9.9%	9.5%	10.8%
Taxes other than income taxes	6.5%	6.8%	6.6%	6.6%	6.8%
Interest expense*	13.4%	12.9%	13.2%	12.7%	13.8%
Allowance for funds used during construction	(0.4)%	(0.2)%	(0.3)%	(0.1)%	(0.8)%
Total costs and expenses	71.3%	72.5%	73.6%	75.0%	76.0%
Income from continuing operations before income taxes	28.7%	27.5%	26.4%	25.0%	24.0%
Effective tax rates	40.6%	41.4%	41.7%	42.5%	43.0%
Income from continuing operations as a percentage of average stockholders' equity	12.4%	11.7%	12.0%	11.2%	11.4%

*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,		1997	1996	1995	1994	1993
Daily sendout (Million gallons per day)	Maximum	142.5	109.5	121.8	110.4	120.7
	Average	103.8	94.2	92.6	89.8	89.1
Metered customers	Residential	268,550	265,746	248,500	234,624	232,684
	Commercial	13,512	13,422	12,019	11,071	11,014
	Industrial	708	716	554	539	538
	Other	4,746	4,257	3,792	3,299	2,959

	Total	287,516	284,141	264,865	249,533	247,195
Consumption per customer in gallons	Average	110,143	103,206	109,084	109,001	110,368
Revenues from water sales	Residential	$ 88,542	$ 79,056	$ 77,744	$ 69,483	$ 66,656
	Commercial	28,048	26,504	24,368	23,431	20,506
	Industrial	5,170	4,823	4,512	4,737	4,207
	Other	10,874	9,950	9,249	9,151	8,092
	Total	$ 132,634	$ 120,333	$ 115,873	$ 106,802	$ 99,461

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 service to approximately 288,000 customers in 93 municipalities within its 464 square mile service territory. In addition, PSW provides water service to approximately 6,000 customers through an operating and maintenance contract to a municipal authority located contiguous to its service territory. PSW's service territory is located in Pennsylvania, north and west of the City of Philadelphia.

Results of Operations

Income from continuing operations of the Company has grown at an annual compound rate of approximately 16.9% during the five-year period ended December 31, 1997. During this same period, revenues and total expenses, other than income taxes, have grown at compound rates of 7.9% and 5.4%, respectively.

Earned Revenues

The growth in revenues over the past five years is a result of increases in the customer base and in water rates. The number of customers increased at an annual compound rate of 3.3% in the past five years primarily as a result of acquisitions of local water systems. Acquisitions made during the five year periods ended December 31, 1997, 1996 and 1995 have provided water revenues of approximately $11,460, $8,210 and $5,550 in 1997, 1996 and 1995, respectively. Excluding the effect of acquisitions, the customer base increased at a five-year annual compound rate of .8%. Water rates have increased at an annual compound growth rate of 4.5% 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 periodically files requests with the PUC to increase its rates. Typically, the PUC will suspend the rate request for up to nine months during which time evidentiary hearings on the merits of the request are held. The positions of PSW as well as the PUC staff, the Office of Consumer Advocate ("OCA") and other interested parties are presented and evaluated during these hearings.

In 1996, the PUC approved a mechanism, the Distribution System Improvement Charge ("DSIC"), which allows Pennsylvania water utilities to add a surcharge to their water bills to offset the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating distribution systems. The DSIC mechanism is intended to eliminate many of the disincentives faced by water utilities in rehabilitating their distribution systems. These disincentives, often referred to as regulatory lag, are due to the rate making process which, prior to the establishment of the DSIC mechanism, required water utilities to absorb all of the depreciation and capital costs of these projects between base rate increases without the benefit of additional revenues.

The DSIC may be adjusted quarterly based on additional qualified capital expenditures made in the previous quarter but may never exceed 5% of the base rates in effect. The DSIC is reset to zero when new base rates that reflect the costs of those additions become effective. PSW began charging a DSIC of .5%

in the first quarter of 1997. Based on subsequent qualified capital expenditures the DSIC was increased to 1.0% in the second quarter, 1.4% in the third quarter and 1.82% for the portion of the fourth quarter prior to the effective date of the new base rate increase. Total revenues associated with the DSIC in 1997 were $1,104.

In April 1997, PSW filed an application with the PUC to increase its rates by 13.2%. The request was suspended to allow the PUC Staff, the OCA and other interested parties a period of additional discovery and to hold hearings on the merits of this request. Prior to the commencement of hearings, PSW reached a settlement with the OCA and the other interested parties. The settlement, which was subsequently approved by the PUC, provided for a 7.3% increase over the rates that were in effect at the time of the filing. Since rates in effect at the time of the filing included a DSIC of 1% or $1,300 on an annual basis, the settlement resulted in a total base rate increase of 8.3% or $10,600 on an annual basis. The new base rates were effective on October 24, 1997. As part of the settlement, PSW has agreed not to file its next base rate increase request prior to April 1999, absent extraordinary circumstances. As a result of the rate settlement, the DSIC was reset to zero.

In the years prior to 1997, rates were increased 5.3%, 9.1% and 7.4% in 1995, 1994, and 1993, respectively. In recent years, the most significant factor in determining the need for a rate increase and the actual rate increases granted has been the amount of utility plant additions that PSW has made, including acquisitions, and the costs of the capital used to finance these additions.

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 taxes. These credits resulted in revenue reductions of $504 in 1995 and $97 in 1994.

"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. 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. 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 a significant 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 also may have an effect on water consumption.

Over the past five years, sendout has increased primarily as a result of PSW's growth in customers. The average annual consumption per customer increased in 1997 by 6.7% and declined by 5.4% in 1996 but has only varied slightly in the previous three years. The increase in the average consumption per customer in 1997 is attributable to the relatively hot, dry summer weather experienced in 1997, particularly in comparison to 1996 when average consumption per customer declined due to rainfalls that were well above average and temperatures that were cooler than normal during the spring and summer months.

Operating Expenses

Operating expenses for 1997, 1996 and 1995, totaled $55,899, $51,615 and $51,702, respectively. Most elements of operating expense are subject to the effects of inflation, as well as the effects of changes in the number of customers served, in water consumption and the degree of 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 1997 over 1996 by $4,284 or 8.3%

primarily as a result of the operating expenses of the water systems acquired in 1997 and 1996 of $1,883, higher production costs resulting from the increased volume of water sold of $740, and increased wage and administrative expenses, partially offset by lower maintenance expenses. Administrative costs increased as a result of increases in insurance costs, and in the bad debt reserve which is related to the increase in revenues. Maintenance expenses declined due to fewer main breaks as a result of the effects of the relatively mild 1997 winter.

Operating expenses decreased slightly in 1996 over 1995 primarily as a result of reductions in pension, employee medical insurance premiums and general liability insurance costs offset in part by the additional operating expenses associated with the acquisitions made in 1996 and 1995. Pension expense declined as a result of the investment returns in the previous two years on the pension assets. Medical insurance costs declined as a result of favorable claims experience with the carriers and the movement of a majority of employees from indemnity health plans to managed care plans.

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 $14,311, $13,068 and $11,572 in 1997, 1996 and 1995, respectively, and has increased principally as a result of the significant capital expenditures made to expand and improve the water utility facilities, and as a result of acquisitions of water systems. Depreciation expense was approximately 2.3% of the average utility plant in service for 1997 and 1996, respectively. Amortization was a charge of $269 in 1997, $265 in 1996 and a credit of $15 in 1995. The increase in 1997 is due to the amortization of additional debt issuance expenses and amortization of the costs of PSW's 1997 rate filing, offset in part by the completion of amortization of the costs of PSW's 1995 rate filing. Expenses associated with filing rate cases are deferred and amortized over approximately 18 months. The increase in 1996 over 1995 is due to the amortization of the costs of PSW's 1995 rate filing as well as the amortization of additional debt issuance expenses.

Taxes Other than Income Taxes

Taxes other than income taxes increased by approximately 8% in both 1997 and 1996 over the previous year. The majority of the increase in both years is associated with increases in the base on which the Pennsylvania Public Utility Realty Tax (PURTA), local real estate taxes and the Capital Stock Tax are calculated and to an increase in the PURTA tax rate. The increase in the taxable base for the PURTA and local real estate taxes is due to the capital expenditures, and the acquisitions completed in the last three 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 Expense

Interest expense was $17,890, $15,311, and $14,852 in 1997, 1996 and 1995, respectively, and has increased in 1997 and 1996 primarily as a result of higher levels of borrowing offset in part by a reduction in interest rates. The level of debt increased in order to finance acquisitions and other capital expenditures made since 1995.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was $522, $264 and $305 in 1997, 1996 and 1995, 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 $8,641, $4,441 and $4,848 in 1997, 1996 and 1995, respectively. The increase in 1997 in the average balance of CWIP was due to the increased level of capital expenditures in 1997 as compared to 1996. The decrease in 1996 is due to a $4,945 operations center that was under construction during 1995 and placed in service in December 1995. AFUDC is not 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 varied due to changes in the interest rate on PSW's revolving credit facility. The average AFUDC rate was 6.1%, 6.1% and 6.3% in 1997, 1996 and 1995, respectively.

Income Taxes

The Company's effective income tax rate was 40.6% in 1997 as compared to 41.4% in 1996 and 41.7% in 1995. The changes in the effective tax rates in 1997 and 1996 are due to differences between tax deductible expenses and book expenses.

Discontinued Operations

In 1993, the Company completed the sale of the last of the nonregulated businesses that the Board of Directors authorized in 1990 and 1991. These businesses are accounted for as discontinued operations. In connection with the decision to sell these businesses, the Company established reserves to cover future costs and contingencies that the Company could be required to pay.

In 1996 and 1995, the Company reversed $965 and $370, net of related income taxes, of the reserves. The reversals were 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 assessment of current information on asserted and unasserted legal claims

related to these businesses. In 1997, the Company received additional sale proceeds of $250 from one of the businesses sold and included the amount in Earned Revenues. The balance of the reserves for discontinued operations of $1,009 at December 31, 1997 consists primarily of reserves for future and contingent costs including potential lease, legal and insurance costs associated with these businesses.

Summary

Operating income in 1997, 1996 and 1995 was $56,799, $49,290 and $46,109, respectively, and income from continuing operations was $23,188, $19,778 and $18,030, respectively, for the same periods. Diluted income per share from continuing operations in 1997, 1996 and 1995 was $.88, $.78 and $.75, respectively. The increases in the per share income in 1997 and 1996 over the previous years were due to the aforementioned improvements in profits offset in part by a 4.0% and 5.6% increase in the average number of common shares outstanding during 1997 and 1996, 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.

Fourth Quarter Results

Net income available to common stock for the fourth quarter of 1997 increased over the same period in 1996 by $171 to $5,432 primarily as a result of a $3,382 increase in revenues offset in part by an increase in operating expenses, depreciation, amortization, taxes other than income, interest expense and preferred dividends, and to the absence, in 1997, of the reversal of reserves for discontinued operations. The increase in revenues was primarily a result of the acquisitions made during the past two years, the rate increase, which took effect October 24, 1997 and an increase in water sales. Operating expenses increased primarily due to costs associated with the acquisitions and the increased water sales. Depreciation increased due to utility plant additions and the acquisitions made since the fourth quarter of 1996. Amortization increased due to the amortization of the costs associated with the 1997 rate request filing. Taxes other than income taxes increased primarily because of the increase in the base on which the PURTA and Capital Stock Tax are computed and to an increase in the PURTA tax rate. Interest increased in the fourth quarter primarily as a result of higher borrowing levels.

Effects of Inflation

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.

Year 2000

Except for its customer information system, the Company's management information systems are year 2000 compliant in all material respects. The Company is currently installing a new customer information system which, in addition to being year 2000 compliant, will offer additional functionality and will be scalable to meet future customer growth. The installation of the new customer information system will be completed in 1998 and the cost of this system, including installation and conversion from the existing system, is currently estimated at approximately $3,140.

Electric Deregulation

During 1997, the total costs for electric power purchased by the Company amounted to $8,575. In December 1996, the Governor of Pennsylvania signed into law the Electricity Generation Customer Choice and Competition Act ("Electric Act") which provides for the restructuring of the electric utility industry in Pennsylvania. The Electric Act requires the unbundling of electric services into separate generation, transmission and distribution services with open competition for generation. Beginning in November 1997, approximately 18% of PSW's electricity requirements were selected to be included in the State's pilot implementation program. Prior to the pilot program, PSW had purchased all of its electricity from PECO Energy Company ("PECO"). For electric accounts in the pilot program, the electricity will be purchased from HorizonOne Electric, a PECO affiliate. The total electric costs for the twelve-month period prior to the pilot program for the accounts selected were approximately $1,020. The Company estimates that the electric rates during participation in the pilot program will be approximately 10% to 12% lower than the former rates. Since electric usage is dependent on water demand, the exact savings related to the pilot program cannot be determined at this time. A recent ruling by the PUC provides that after completion of the pilot program on December 31, 1998, 66% of PECO's electric accounts, including the accounts in the pilot program and others to be selected in a lottery, will be permitted to choose the electricity generator of their choice. The Electric Act will be completely phased in on January 1, 2001 at which point all electric accounts will be allowed to select their electric supplier. The PUC ruling is subject to appeal by PECO and others.

Financial Condition

Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1997 were as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1993	$ 27,049	$ 11,629	$ 27,958
1994	29,730	12,637	27,379
1995	32,954	13,546	33,182
1996	37,422	14,795	31,389
1997	41,843	16,129	38,960
	$ 168,998	$ 68,736	$ 158,868

Included in capital expenditures are: $11,650 for the construction of a surface water treatment plant; $15,189 for the modernization of existing treatment plants; $20,084 for new water mains and customer service lines; $30,101 for the rehabilitation of existing water mains; $9,835 to rehabilitate hydrants and customer service lines; $19,238 for water meters and $4,945 for the construction of a divisional operations center. During this five year period, PSW received $7,702 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 $3,536, retired $71,700 of debt and $5,786 of preferred stock, and has refunded $9,639 of customer advances for construction. PSW has also expended $71,634 related to the acquisition of 19 water systems and 2 small wastewater utilities since 1993.

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 $141,000 of First Mortgage Bonds, and received $32,495 of equity investments from the Company during the past five years.

The Company has funded its investment in PSW with the proceeds from the sale of stock and the sale of its discontinued operations. In April 1993, the Company sold 2,200,000 shares of common stock in a public offering for net proceeds of $18,331. The Company has also sold 3,901,636 original issue shares of common stock for net proceeds of $41,423 since 1993 through three programs that allowed existing shareholders and customers of PSW to purchase shares of common stock directly from the Company as described in the following table:

	Customer Stock Purchase Program	Dividend Reinvestment Program	Optional Stock Purchase Program	Total
Net proceeds:				
1993	$ 5,465	$ 1,491	$ 583	$ 7,539
1994	3,541	2,047	603	6,191
1995	4,680	2,324	842	7,846
1996	7,953	3,111	1,216	12,280
1997	3,122	3,650	795	7,567
	$24,761	$ 12,623	$ 4,039	$ 41,423
Shares issued:				
1993	597,880	173,408	63,715	835,003
1994	401,380	234,040	66,216	701,636
1995	510,911	265,820	91,337	868,068
1996	644,151	266,129	97,353	1,007,633
1997	201,092	237,437	50,767	489,296
	2,355,414	1,176,834	369,388	3,901,636

In December 1997, the Company adopted a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that replaced the Customer Stock Purchase Plan and the Dividend Reinvestment and Optional Stock Purchase Plan. Under the direct stock purchase portion of the Plan, shares are sold throughout the year, instead of during quarterly subscription periods, and the shares are obtained by the Company's transfer agent in the open market instead of original issue shares of stock. The dividend reinvestment portion of the Plan continues to offer a 5% discount on the purchase of original issue shares of common stock with reinvested dividends. As of the December 1997 dividend payment, holders of 23% of the common shares outstanding participated in the dividend reinvestment portion of the Plan.

In August 1997, the Board of Directors approved a resolution authorizing the Company to purchase 500,000 shares of its common stock in the open market or through privately negotiated transactions. A similar resolution was approved in 1993. Management has used this authority, from time to time, to offset the dilutive effect on earnings per share resulting from the original issue shares issued through the plans previously discussed. During 1997, 1996 and 1995, the Company purchased 152,000, 4,339 and 78,912 shares at a net cost of $2,284, $52 and $733, respectively. (For comparative purposes, the numbers of shares in the previous sentence have been adjusted to give effect to the 1997

4-for-3 common stock split in the form of a stock distribution). As of December 31, 1997, the remaining number of shares the Company may purchase under the Board of Director's authorization is 628,145. Funding for future stock purchases, if any, is not expected to have a material impact on the Company's financial position.

PSW's planned 1998 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be $55,000 of which $33,400 is for DSIC qualified projects. PSW has increased its capital spending for infrastructure rehabilitation in response to the DSIC. Should the DSIC be discontinued for any reason, which is not anticipated, PSW would likely reduce its capital program significantly. The 1998 capital program, along with the January 1998 acquisition of the water utility assets of the West Chester Area Municipal Authority, $2,448 of sinking fund obligations and $4,214 of preferred stock redemptions is expected to be financed through internally-generated funds, the revolving credit facility, equity investments from the Company, and issuance of new long-term debt.

In January 1998, the Company registered 1,100,000 of shares of common stock for sale in a public offering that it expects to complete in February 1998. Based on the market price of the Company's common stock in late January 1998, the Company anticipates proceeds of $25,239, net of expenses, from this offering, $28,706 if the underwriters' option to sell an additional 150,000 shares is exercised. The proceeds of this offering will be used to make a $19,000 equity contribution to PSW and to repay short-term debt.

PSW continues to hold acquisition discussions with several water systems that are near or adjacent to PSW's service territory. The cash needed for acquisitions is expected to be funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or equity investments from the Company.

Future utility construction in the period 1999 through 2002, 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 $200,000, the majority of which will be DSIC qualified projects to rehabilitate the distribution system. The Company anticipates that approximately 50% of these expenditures will require external financing including the additional issuance of Common Stock through the Company's dividend reinvestment plan and possible future public equity offerings. The Company expects to refinance $20,238 of debt maturities during this period as they become due with new issues of long-term debt. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

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.

Capitalization

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

December 31,	1997	1996	1995	1994	1993
Long-term debt*	54.2%	55.3%	53.5%	49.9%	50.7%
Preferred stock *	1.7%	2.1%	2.0%	3.3%	3.4%
Common stockholders' equity	44.1%	42.6%	44.5%	46.8%	45.9%
	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, particularly in 1993, and the issuance of debt by PSW to finance its acquisitions and capital program. It is the Company's and PSW's goal to maintain an equity ratio adequate to support PSW's current Standard and Poors debt rating of "A" and the expected issuance of common stock in an underwritten public offering in February 1998 will increase its common equity ratio.

Impact of Recent Accounting Pronouncements

In February 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128") which introduces new methods for calculating earnings per share. The Company adopted this Statement, as required, in December 1997. The adoption of this Statement required the Company to restate earnings per share reported in prior periods.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company plans to adopt this Statement on January 1, 1998, as required.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). This Statement established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosure about products and services, geographic areas and major customers. The Company plans to adopt this statement on January 1, 1998, as required. The adoption of this Statement will not affect results from operations, financial conditions or long-term liquidity.

Dividends on Common Stock

Following is a recent history, adjusted for the 1997 4-for-3 common stock split in the form of a stock distribution, of the Company's income from continuing operations and dividends:

	Cash dividend per common share	Basic income per share from continuing operations	Dividend payout ratio
1993	$0.54	$0.64	84%
1994	0.55	0.68	81%
1995	0.57	0.75	76%
1996	0.59	0.79	75%
1997	0.62	0.89	70%

Dividends have averaged approximately 77% of income from continuing operations during this period. During 1997, the Board of Directors increased the dividend rate by 7%. As a result, beginning with the dividend payable in March 1998, the annual dividend rate increased to $.65 per share.

MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1997, 1996 and 1995 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 comprised of four outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1997.

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 and statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, and cash flow for each of the years in the three-year period ended December 31, 1997. 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, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
January 28, 1998

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
Earned revenues	$136,171	$122,503	$117,044
Costs and expenses:			
Operating expenses	55,899	51,615	51,702
Depreciation	14,311	13,068	11,572
Amortization	269	265	(15)
Taxes other than income taxes	8,893	8,265	7,676
	79,372	73,213	70,935
Operating income	56,799	49,290	46,109
Interest expense	17,890	15,311	14,852
Dividends on preferred stock of subsidiary	370	494	631
Allowance for funds used during construction	(522)	(264)	(305)
Income from continuing operations before income taxes	39,061	33,749	30,931
Provision for income taxes	15,873	13,971	12,901
Income from continuing operations	23,188	19,778	18,030
Reversal of reserve for discontinued operations, net of income tax of $520 and $200, in 1996 and 1995	--	965	370
Net income	23,188	20,743	18,400
Dividends on preferred stock	195	21	--
Net income available to common stock	$ 22,993	$ 20,722	$ 18,400
Basic net income per common share:			
Continuing operations	$ 0.89	$ 0.79	$ 0.75
Discontinued operations	--	0.04	0.02
Total	$ 0.89	$ 0.83	$ 0.77
Diluted net income per common share:			
Continuing operations	$ 0.88	$ 0.78	$ 0.75
Discontinued operations	--	0.04	0.02
Total	$ 0.88	$ 0.82	$ 0.77
Average common shares outstanding during the period	25,908	24,966	23,803

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except per share amounts)
December 31, 1997 and 1996

	1997	1996
Assets		
Property, plant and equipment, at cost	$656,011	$612,812
Less accumulated depreciation	121,528	109,874
Net property, plant and equipment	534,483	502,938
Current assets:		
Cash	680	1,518
Accounts receivable, net	23,534	21,914
Inventory, materials and supplies	1,847	1,943
Prepayments and other current assets	1,002	660
Total curent assets	27,063	26,035
Regulatory assets	51,203	48,491
Deferred charges and other assets, net	5,723	5,480
	$618,472	$582,944
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	$ 3,220	$ 3,220
Common stock at $.50 par value, authorized 40,000,000 shares, outstanding 26,210,654 and 25,598,105 in 1997 and 1996	13,294	9,731
Capital in excess of par value	128,065	121,439
Retained earnings	56,136	49,272
Treasury stock, 376,510 and 262,230 shares in 1997 and 1996	(5,970)	(3,647)
Total stockholders' equity	194,745	180,015
Preferred stock of subsidiary with mandatory redemption requirements	--	4,214
Long-term debt, excluding current portion	232,471	217,518
Commitments	--	--
Current liabilities:		
Current portion of long-term debt and preferred stock of subsidiary	6,662	13,873
Loans payable	10,400	5,560
Accounts payable	10,259	9,659
Accrued interest	3,978	3,660
Accrued taxes	3,643	3,363
Other accrued liabilities	9,755	8,924
Total current liabilities	44,697	45,039
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	83,129	75,949
Customers' advances for construction	25,810	23,524

	1997	1996
Other	12,764	12,826
Total deferred credits and other liabilities	121,703	112,299
Contributions in aid of construction	24,856	23,859
	$618,472	$582,944

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 1997 and 1996

	1997	1996
Stockholders' equity:		
6.05% Series B cumulative preferred stock	$ 3,220	$ 3,220
Common stock, %.50 par value	13,294	9,731
Capital in excess of par value	128,065	121,439
Retained earnings	56,136	49,272
Treasury stock	(5,970)	(3,647)
Total stockholders' equity	194,745	180,015
Preferred stock of subsidiary with mandatory redemption requirements	4,214	5,643
Current portion of preferred stock of subsidiary	4,214	1,429
	--	4,214
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
8.44% Series, due 1997	--	12,000
5.95% Series, due 2002*	2,000	2,400
6.30% Series, due 2002	10,000	--
6.83% Series, due 2003	10,000	10,000
7.47% Series, due 2003	10,000	10,000
7.06% Series, due 2004	10,000	--
6.82% Series, due 2005	10,000	10,000
6.99% Series, due 2006	10,000	10,000
6.75% Series, due 2007	10,000	--
9.89% Series, due 2008	5,000	5,000
7.15% Series, due 2008*	22,000	22,000
9.12% Series, due 2010	20,000	20,000
6.50% Series, due 2010*	3,200	3,200
9.17% Series, due 2011	5,000	5,000
9.93% Series, due 2013	5,000	5,000
6.89% Series, due 2015	12,000	12,000
9.97% Series, due 2018	5,000	5,000
9.17% Series, due 2021*	8,000	8,000
6.35% Series, due 2025	22,000	22,000
7.72% Series, due 2025	15,000	15,000
9.29% Series, due 2026	12,000	12,000
Total First Mortgage Bonds	206,200	188,600
Note payable to bank under revolving credit agreement, due March 1998	27,128	39,727
Installment note payable, 9%, due in equal annual payments through 2013	1,591	1,635

	234,919	229,962
Current portion of long-term debt	2,448	12,444
Long-term debt, excluding current portion	232,471	217,518
Total capitalization	$427,216	$401,747

* Trust indentures relating to these First Mortgage Bonds require annual sinking fund payments.

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 1997, 1996 and 1995

	1997	1996	1995
Cash flows from operating activities:			
Income from continuing operations	$23,188	$19,778	$18,030
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	14,580	13,333	11,557
Deferred taxes, net of taxes on customers' advances	3,797	2,628	2,573
Net increase in receivables, inventory and prepayments	(1,396)	(517)	(2,037)
Net increase in payables, accrued interest and other accrued liabilities	2,354	1,748	4,604
Other	(680)	452	(1,773)
Net cash flows from operating activities	41,843	37,422	32,954
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of $522, $264 and $305	(38,960)	(31,389)	(33,182)
Acquisitions of water and wastewater systems	(1,226)	(42,122)	(26,351)
Other	(535)	24	(91)
Net cash flows used in investing activities	(40,721)	(73,487)	(59,624)
Cash flows from financing activites:			
Customers' advances and contributions in aid of construction	953	470	1,600
Repayments of customers' advances	(2,408)	(2,142)	(2,104)
Net proceeds (repayments) of short-term debt	4,840	(895)	2,405
Proceeds from long-term debt	29,665	64,256	57,906
Repayments of long-term debt including premium on early retirement	(25,042)	(24,094)	(23,585)
Redemption of preferred stock of subsidiary	(1,428)	(1,500)	(2,857)
Proceeds from issuing common stock	10,695	14,651	9,060
Repurchase of common stock	(2,829)	(760)	(733)
Dividends paid on preferred stock	(195)	(4)	--
Dividends paid on common stock	(16,129)	(14,795)	(13,546)
Other	(82)	(167)	(154)
Net cash flows from (used in) financing activities	(1,960)	35,020	27,992
Net cash flows from (used in) discontinued operations	--	176	(178)

Net increase (decrease) in cash	(838)	(869)	1,144
Cash balance beginning of year	1,518	2,387	1,243
Cash balance end of year	$ 680	$ 1,518	$ 2,387

See Acquisitions footnote for description of non-cash investing and financing activities.

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)
(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 primarily through its subsidiary Philadelphia Suburban Water Company ("PSW"). PSW is a regulated public utility which supplies water to approximately 288,000 customers. The customers are residential, commercial and industrial in nature, and no single customer accounted for more than one percent of PSW's sales. The service territory of PSW covers a 464 square mile area located west and north of the City of Philadelphia. In addition, PSW provides water service to approximately 6,000 customers through an operating and maintenance contract with a municipal authority contiguous to its service territory. 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

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.

Net Income per Common Share

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share" in the fourth quarter of 1997. SFAS No. 128 requires the Company to use methods for calculating earnings per share that differ from methods used in prior periods and requires the Company to restate net income per share reported in prior periods. The adoption of this statement had no effect on the results of operations, financial conditions, or long-term liquidity.

Property, Plant and Equipment and Depreciation

Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 1997, utility plant includes a credit acquisition adjustment of $6,719, which is being amortized over 20 years. Consistent with PSW's rate settlements, $449 was amortized during 1997, $526 was amortized during 1996 and $529 was amortized during 1995.

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, office equipment and laboratory equipment.

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

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. 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 any of the years presented.

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 approximately 18 months. 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 basis 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

Water mains or, in some instances, cash advances to reimburse PSW its costs to construct water mains, are contributed to PSW by customers, real estate developers and builders in order to extend water service to their properties.

The value of these contributions is recorded as Customers' Advances for Construction. PSW makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction.

Contributions in Aid of Construction

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

Inventories, Materials and Supplies

Inventories are stated at cost, not in excess of market value. Cost is determined using the first-in, first-out method.

Stock-Based Compensation

In 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", electing the provision of the statement allowing it to continue its practice of not recognizing compensation expense related to granting of stock options to the extent that the option price of the underlying stock was equal to, or greater than, the market price on the date of option grant. Disclosure of the impact on the results of operations, had the Company elected to recognize compensation expense, is provided in the Employee Stock and Incentive Plans footnote as required by the Statement.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with 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.

Reclassifications

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

Acquisitions

During 1997, PSW made the following acquisitions: in January, the franchise rights and the water utility assets of Cherry Water Company; in September, the franchise rights and water utility assets of Perkiomen Township and in September, the franchise rights and both the water and wastewater utility assets of the Peddler's View Utility Company. The systems acquired in 1997 incorporate two square miles of service area near PSW's existing territory. The total purchase price for the three water systems and wastewater system acquired in 1997 was $1,226. The annual revenues from these systems approximate $300, and revenues included in the consolidated financial statements during the period owned by PSW were $175.

During 1996, PSW made the following acquisitions: in October the franchise rights and the water utility assets of Hatboro Borough Authority; in November, Utility Group Services Corporation ("UGS") which owned three water utilities and a wastewater utility; in December, the franchise rights and the water utility assets of Bristol Borough Water and Sewer Authority and at various times during 1996 the franchise rights and the water utility assets of three smaller water systems. The total purchase price for the eight water systems and wastewater system acquired in 1996 was $47,889, including the issuance of $3,220 of the Company's preferred stock and the assumption of $2,547 in liabilities. These systems have a combined service territory of 64 square miles. Revenues included in the consolidated financial statements related to the systems acquired in 1996 were $5,902 in 1997 and $466 in 1996.

(In thousands of dollars, except per share amounts)

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. Revenues included in the consolidated financial statements related to the water supply systems acquired in 1995 were $4,954 in 1997, $4,470 in 1996 and $2,820 in 1995.

In addition, in January 1998, PSW purchased the franchise rights and the water utility assets of West Chester Area Municipal Authority ("West Chester") for $22,400 in cash, subject to minor adjustment related to the final value of current assets transferred and recent capital expenditures. The West Chester service territory covers 16 square miles and is contiguous to PSW's territory. The annual revenues of the West Chester system approximate $4,500. PSW has also entered into a letter of intent to acquire the Flying Hills Water Company ("Flying Hills") in a purchase transaction for approximately 45,000 shares of the Company's Common Stock. This transaction, which is subject to final negotiation and the approval of the PUC, is expected to be completed in the first quarter of 1998. The Flying Hills system covers a one square mile area in Berks County near Reading, Pennsylvania and is 16 miles from the nearest edge of PSW's system. The annual revenues of the Flying Hills system approximate $200.

Property, Plant and Equipment

	December 31,	
	1997	1996
Utility plant and equipment	$641,303	$604,298
Utility construction work in progress	12,426	6,232
Non-utility plant and equipment	2,282	2,282
Total property, plant and equipment	$656,011	$612,812

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.

Accounts Receivable

December 31,

(In thousands of dollars, except per share amounts)

	1997	1996
Billed water revenue	$ 9,230	$ 9,760
Unbilled water revenue	13,949	11,764
Other	855	690
	24,034	22,214
Less allowance for doubtful accounts	500	300
Net accounts receivable	$23,534	$21,914

All of the Company's customers are located in southeastern Pennsylvania. No single customer accounted for more than one percent of the Company's sales in 1997 or 1996 and no account receivable from any customer exceeded one percent of the Company's total stockholders' equity.

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 1993 and the recognition of the accrual method in the Company's rates in 1994. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

	December 31,	
	1997	1996
Income taxes	$49,229	$46,381
Postretirement benefits other than pensions	1,974	2,110
	$51,203	$48,491

Income Taxes

Total income tax expense is allocated as follows:

	Years Ended December 31,		
	1997	1996	1995
Income from continuing operations	$ 15,873	$13,971	$12,901
Common stockholders' equity related to stock option activity which reduces taxable income	(401)	(126)	(44)
Discontinued operations	-	520	200
	$ 15,472	$14,365	$13,057

(In thousands of dollars, except per share amounts)

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

	Years Ended December 31,		
	1997	1996	1995
Current:			
Federal	$ 8,742	$ 8,084	$ 7,688
State	2,800	2,600	2,514
	11,542	10,684	10,202
Deferred:			
Federal	4,004	3,002	2,565
State	327	285	134
	4,331	3,287	2,699
Total tax expense	$15,873	$13,971	$12,901

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

	Years Ended December 31,		
	1997	1996	1995
Excess of tax over financial statement depreciation	$ 3,308	$ 2,458	$ 2,323
Amortization of deferred investment tax credits	(105)	(115)	(151)
Current year investment tax credits deferred	35	40	90
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation	860	770	819
Customers' advances for construction, net	556	196	(443)
Other, net	(323)	(62)	61
Total deferred income tax expense	$ 4,331	$ 3,287	$ 2,699

The statutory Federal tax rate is 35% and the Pennsylvania Corporate Net Income Tax rate is 9.99% for all years presented.

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

	Years Ended December 31,		
	1997	1996	1995
Computed Federal tax expense at statutory rate	$12,508	$10,795	$9,899
Increase (decrease) in tax expense for items to be recovered in future rates:			
Depreciation expense	70	179	132

(In thousands of dollars, except per share amounts)

Losses on asset disposals	(2)	(12)	(35)
Amortization of deferred investment tax credits	(105)	(115)	(151)
Preferred stock dividend	197	180	221
Other, net	78	59	187
Actual Federal tax expense	$12,746	$11,086	$10,253

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,	
	1997	1996
Deferred tax assets:		
Customers' advances for construction	$ 9,198	$ 9,753
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	2,393	2,638
Other	642	389
Total gross deferred tax assets	12,233	12,780
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	71,888	65,666
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	18,937	17,801
Deferred investment tax credit	4,218	4,288
Other	319	974
Total gross deferred tax liabilities	95,362	88,729
Net deferred tax liability	$83,129	$75,949

The Company made income tax payments, which include amounts related to discontinued operations, of $11,346, $10,199 and $9,730 in 1997, 1996 and 1995, respectively. The Company's Federal income tax returns for all years through 1993 have been closed.

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 $2,852 through 2002. PSW purchased approximately $2,978, $2,889 and $2,839 of water under these agreements during the years ended December 31, 1997, 1996 and 1995, respectively.

PSW leases motor vehicles and other equipment under operating leases that are noncancelable and expire on various dates through 2002. During the next five years, $2,698 of future minimum lease payments are due: $1,026 in 1998, $834 in 1999, $504 in 2000, $315 in 2001 and $8 in 2002. PSW leases parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The operating lease is noncancelable, expires in 2045 and contains certain renewal provisions. 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.

(In thousands of dollars, except per share amounts)

Rent expense was $1,297, $1,332 and $1,067 for the years ended December 31, 1997, 1996 and 1995, respectively.

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a listing of long-term debt and loans outstanding as of December 31, 1997 and 1996. 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, 1997, approximately $120,000 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:

	1998	1999	2000	2001	2002
Sinking fund payments	$ 2,448	$ 2,452	$ 2,457	$ 2,462	$ 2,867
Maturities	-	-	-	-	10,000
Total	$ 2,448	$ 2,452	$ 2,457	$ 2,462	$12,867

In July 1997, PSW established a two-year $150,000 medium-term note program providing for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. This program replaced a similar program that expired in March 1997. The notes issued under this program are secured by the Thirty-First Supplement to the trust indenture relating to PSW's First Mortgage Bonds. During 1997, issuances through these programs were as follows: $10,000 in March 1997, 7.06% Series due 2004; $10,000 in July 1997, 6.75% Series due 2007; $10,000 in October 1997, 6.3% Series due 2002. During 1996, issuances through these programs were as follows: $10,000 in April 1996, 6.99% Series due 2006; $10,000 in July 1996, 7.47% Series due 2003; and $10,000 in November 1996, 6.83% Series due 2003. The proceeds from these issuances were used to fund acquisitions, the retirement of the First Mortgage Bonds noted below and for PSW's ongoing capital program.

In January 1998, PSW issued $10,000 6.14% Series due 2008 and $10,000 5.8% Series due 2003 through the medium-term note program. Proceeds from these issues were used to reduce the balance of PSW's revolving credit facility.

In January 1996, PSW retired $5,000 of First Mortgage Bonds, 7.875% Series due 1997, at a premium of .331% or $17 and $4,150 of First Mortgage Bonds, 8.4% Series due 2002, at a premium of 2.1% or $87. In April 1996, PSW retired $10,000 of First Mortgage Bonds, 10.65% Series due 2006, at a premium of 5.04% or $504. The unamortized bond issuance expenses related to the retirements in 1996 were $25. 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 revolving credit agreement with four banks. In January 1998, PSW extended its revolving credit agreement, that was due to expire in March 1998, until January 2000 and increased the available borrowings under this facility from $30,000 to $50,000. Accordingly, amounts borrowed under this facility as of December 31, 1997 have been classified as long-term debt. The agreement was also amended in prior years to temporarily increase the available borrowings under this facility. 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 6.08% and 6.02%, and the average borrowing was $36,746 and $14,326, during 1997 and 1996, respectively. The maximum amount outstanding at the end of any one month was $48,743 in 1997 and $39,727 in 1996.

At December 31, 1997 and 1996, the Company and PSW had combined short-term lines of credit of $16,000. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was $8,009 and $5,123 during 1997 and 1996, respectively. The maximum amount outstanding at the end of any one month was $11,090 in 1997 and $6,820 in 1996. 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 1997 and 1996 was 6.1%.

The total amount of interest paid on all borrowings, net of amounts capitalized, was $17,616, $15,503 and $14,923 in 1997, 1996 and 1995, respectively. The proforma weighted cost of long-term debt at December 31, 1997 and 1996 was 7.5% and 7.7%, respectively.

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, 1997, 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 exercised its 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. The balance may be called, beginning in 1998, at a specified price above par.

In December 1997, PSW provided notice to the holder of the preferred stock of its intention to call all the remaining shares in January 1998. As required by the share purchase agreement, 14,285 shares were redeemed at par value and a 4% premium or $111 was paid on the remaining 27,860 shares outstanding. Accordingly, $4,214 has been classified as the current portion of preferred stock as of December 31, 1997.

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt as of December 31, 1997 is $234,919 and $254,998, respectively. The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration.

(In thousands of dollars, except per share amounts)

The Company's customers' advances for construction and related tax deposits have carrying values of $25,810 and $6,092, respectively at December 31, 1997. 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 2018 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.

Stockholders' Equity

At December 31, 1997, the Company had 1,770,819 shares of Series Preferred Stock with a $1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated 32,200 shares as Series B Preferred Stock, $1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. In 1996, the Company issued all of the 6.05% Series B Preferred Stock in connection with the acquisition of UGS. The Series B Preferred Stock is recorded on the balance sheet at its liquidation value of $100 per share. The dividends, payment of which commenced December 1, 1996, are cumulative and payable quarterly. PSC may not pay dividends on common stock unless provision has been made for payment of the preferred dividends. Under the provisions of this issue, the holders may redeem the shares, in whole or in part, at the liquidation value beginning December 1, 1998 and the Company may redeem up to 20% of this issue each year beginning December 1, 2001 and, at the holders' option, this redemption may be made in cash or through the issuance of debt with a five year maturity at an interest rate of 6.05%. As of December 31, 1997, all dividends have been provided for.

In December 1997, the Company's Board of Directors declared a 4-for-3 common stock split effected in the form of a 33.3% stock distribution for all common shares outstanding, to shareholders of record on December 15, 1997. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on January 12, 1998. The Company's par value of $.50 per share remained unchanged and $3,276 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

At December 31, 1997, the Company had 40,000,000 shares of common stock authorized; par value $.50. Shares outstanding at December 31, 1997, 1996 and 1995 were 26,210,654, 25,598,105 and 24,377,496, respectively. Treasury shares held at December 31, 1997, 1996 and 1995 were 376,510, 262,230 and 259,125, respectively.

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

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Total
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)

(In thousands of dollars, except per share amounts)

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
Net income	--	--	--	20,722	20,722
Dividends	--	--	--	(14,795)	(14,795)
Stock split	3,140	--	(3,140)	--	--
Sale of stock	298	693	11,546	--	12,537
Repurchase of stock	--	(760)	--	--	(760)
Equity Compensation Plan	1	--	38	--	39
Exercise of stock options	68	--	2,008	--	2,076
Balance at December 31, 1996	9,731	(3,647)	121,439	49,272	176,795
Net income	--	--	--	22,993	22,993
Dividends	--	--	--	(16,129)	(16,129)
Stock split	3,276	--	(3,276)	--	--
Sale of stock	178	506	7,128	--	7,812
Repurchase of stock	--	(2,829)	--	--	(2,829)
Equity Compensation Plan	1	--	50	--	51
Exercise of stock options	108	--	2,724	--	2,832
Balance at December 31, 1997	$ 13,294	$ (5,970)	$ 128,065	$ 56,136	$ 191,525

In January 1998, the Company registered 1,100,000 shares of common stock for sale in a public offering that it expects to complete in February 1998. Based on the market price of the Company's common stock in late January

1998, the Company anticipates proceeds of $25,239, net of expenses, from this offering, $28,706 if the underwriters' option to sell an additional 150,000 shares is exercised. The proceeds of this offering will be used to make a $19,000 equity contribution to PSW, that PSW will use to reduce the balance of its revolving credit loan, and to repay short-term debt of the Company.

The Company has adopted a Dividend Reinvestment and Direct Stock Purchase Plan in early 1998 that replaced the Customer Stock Purchase Program for PSW's customers, and the Dividend Reinvestment and Optional Stock Purchase Program for existing shareholders. Under the new plan, reinvested dividends will continue to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares may be purchased by investors throughout the year, instead of during limited subscription periods, at market price and the shares will be purchased by the Company's transfer agent in the open-market at least weekly and will not be original issue shares of stock. The Plans that were replaced exclusively used original issue shares and 489,296, 1,007,633 and 868,068 original issue shares of common stock were sold providing the Company with $7,567, $12,280 and $7,846 of additional capital, after expenses, during 1997, 1996 and 1995, respectively.

In August 1997, the Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 500,000 shares of its common stock in the open market or through privately negotiated transactions. The remaining number of shares authorized for purchase was adjusted as a result of the 4-for-3 stock split so that the total number of shares authorized for purchase as of December 31, 1997 was 669,612. In 1993, the Board of Directors approved a similar authorization. During 1997, 1996 and 1995, 152,000, 4,339 and 78,912 shares have been purchased at a net cost of $2,284, $52 and $733, respectively. For comparative purposes the number of shares purchased is presented as if they were adjusted for the effect of the 1997 and 1996 stock splits. As of December 31, 1997, 628,145 shares remain available for purchase by the Company.

Net Income per Common Share and Equity per Common Share

(In thousands of dollars, except per share amounts)

In December 1997, the Company adopted SFAS No. 128, "Earnings per Share" which prescribes two methods for calculating net income per common share: Basic and Diluted methods. These calculations differ from those used in prior periods and as a result all prior period earnings per share data have been restated to reflect the adoption of SFAS No. 128 as well as the 1997 4-for-3 stock split. Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per share. The adoption of this statement had no effect on the results of operations, financial conditions, or long-term liquidity. The following table summarizes the shares used in computing Basic and Diluted net income per share:

	Years ended December 31,		
	1997	1996	1995
Average common shares outstanding during the period for Basic computation	25,908	24,966	23,803
Dilutive effect of employee stock options	365	296	113
Average common shares outstanding during the period for Diluted computation	26,273	25,262	23,916

Equity per common share was $7.31 and $6.91 at December 31, 1997 and 1996 respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan (the "Current 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.

At the meeting of the Board of Directors scheduled for February 3, 1998, management is expected to recommend that the Board of Directors adopt a new Shareholder Rights Plan (the "New Plan") to replace the Current Plan. The New Plan, which would expire on March 1, 2008, would be substantially the same as the Current Plan except that the beneficial ownership threshold that would trigger the exercisability of the rights issued to purchase Company Common Stock would be reduced from 25% of the outstanding Common Stock to approximately 20% of the outstanding Common Stock.

Employee Stock and Incentive Plans

(In thousands of dollars, except per share amounts)

Under the 1994 Equity Compensation Plan ("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 ("Board"). In May 1996, the Shareholders authorized an increase to the number of shares from 900,000 shares to 1,900,000 shares of common stock for issuance under the 1994 plan, with the maximum number of restricted stock grants limited to 50,000 shares. Awards under this plan are made by the Board of Directors or a committee of the Board.

Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments 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 two plans:

	Years Ended December 31,		
	1997	1996	1995
Options granted	263,333	254,000	241,000
Options terminated	(33,405)	(38,136)	-
Options exercised	(292,492)	(240,201)	(106,624)
Net change	(62,564)	(24,337)	134,376
Balance of shares under option	968,137	1,030,701	1,055,038

Options exercised during 1997 ranged in price from $6.47 per share to $11.19 per share. The shares under option at December 31, 1997 are exercisable at prices ranging from $6.59 to $15.14 per share. At December 31, 1997, 439,527 shares were exercisable, and 932,008 options under the 1994 Plan were still available for grant.

Under SFAS No. 123, "Accounting for Stock-Based Compensation", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the proforma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income available to common stock and Basic and Diluted net income per share would have been reduced to the proforma amounts indicated below:

	Years Ended December 31,		
	1997	1996	1995
Net income available to common stock:			
As reported	$ 22,993	$20,722	$18,400
Proforma	22,229	20,337	18,048
Basic net income per share:			
As reported	$ 0.89	0.83	$ 0.77
Proforma	0.86	0.81	0.76
Diluted net income per share:			
As reported	$ 0.88	$ 0.82	$ 0.77
Proforma	0.85	0.81	0.75

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The per share weighted-average fair value at the date of grant for stock options granted during 1997, 1996 and 1995 was $2.90, 1.52 and $1.46 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	1997	1996	1995
Expected life (years)	10	10	10
Interest rate	6.6%	6.4%	7.4%
Volatility	13.8%	14.0%	12.5%
Dividend yield	4.0%	5.2%	6.3%

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 a Committee of the Board at the time of grant. A performance period is generally four years but may be adjusted by the Committee 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 is accrued when known or projected. The Board granted 103,974, 98,975 and 90,977 dividend equivalents in 1997, 1996 and 1995, respectively, and costs associated with these awards were $330 in 1997, $234 in 1996 and $197 in 1995. During 1997 and 1996, payments associated with the dividend equivalents of $191 and $124, respectively, were made to recipients.

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 1997, 1996 and 1995, 3,600, 3,200 and 3,600 shares of restricted stock were granted with a restriction period of six months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and is recognized as expense in the year of the grant.

(In thousands of dollars, except per share amounts)

Pension Plans and Other Postretirement Benefits

The Company has defined benefit pension plans that cover its full-time employees. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund these plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. 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 non-qualified Supplemental Executive Retirement Plans for one current and one retired employee. 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,		
	1997	1996	1995
Benefits earned during the year	$ 1,432	$ 1,373	$ 905
Interest cost on projected benefit obligation	3,796	3,523	3,304
Actual return on plan assets	(11,502)	(6,784)	(9,256)
Net amortization and deferral	7,222	2,904	6,029
Capitalized costs	(40)	(34)	(133)
Rate-regulated adjustment	(567)	(707)	(311)
Net pension cost	$ 341	$ 275	$ 538

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 water rates.

The assets and obligations of the plans are as follows:

	December 31,	
	1997	1996
Accumulated benefit obligation:		
Vested	$ 43,894	$ 38,991
Non-vested	2,443	2,210
Total	$ 46,337	$ 41,201
Projected benefit obligation	$ 57,157	$ 51,321
Plan assets at fair value, primarily equity and fixed income commingled funds	60,112	51,249
Plan assets less than (in excess of) projected benefit obligation	(2,955)	72

(In thousands of dollars, except per share amounts)

	1997	1996
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	7,715	3,522
Unrecognized prior service cost	(1,737)	(1,378)
Rate-regulated adjustment	(1,662)	(1,095)
Unrecognized net obligation	(364)	(453)
Accrued pension costs included in other current liabilities	$ 997	$ 668

The accumulated and projected benefit obligations were calculated using the projected unit credit method and reflect the following assumptions: discount rates of 7% for 1997, 7.25% for 1996 and 7% for 1995; increase in future compensation levels of 5.5% for all years presented; and long-term rate of return on assets of 9% for all years presented.

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 includes the following components:

	Years Ended December 31,		
	1997	1996	1995
Benefits earned during the year	$ 389	$ 296	$ 208
Interest cost	919	872	994
Return on plan assets	(647)	(173)	(101)
Net amortization and deferral	916	567	655
Amortization of regulatory asset	136	136	136
Gross PBOP cost	1,713	1,698	1,892
Capitalized costs	(407)	(79)	(94)
Net PBOP cost	$ 1,306	$ 1,619	$ 1,798

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

	December 31,	
	1997	1996
Accumulated postretirement benefit obligation (APBO):		
Retirees	$ 6,244	$ 6,246
Fully eligible active employees	2,857	3,325
Other employees	3,626	3,045
Total APBO	12,727	12,616
Fair value of plan assets	5,437	3,500

(In thousands of dollars, except per share amounts)

APBO in excess of plan assets	7,290	9,116
Unrecognized net transition obligation	(11,151)	(11,894)
Unrecognized net gain	5,892	4,974
Accrued PBOP cost included in other liabilities	$ 2,031	$ 2,196

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 8%, reducing to 4.5% by 2002 for all others; a 9% return on plan assets for all years presented. The effect of a 1% increase in the assumed medical inflation rates would be to increase the APBO and the 1997 PBOP costs by $770 and $59, respectively. The Company funds its gross PBOP cost through various trust accounts.

Water Rates

On October 23, 1997, the Pennsylvania Public Utility Commission ("PUC") approved a rate settlement reached between PSW and the parties actively litigating the rate application PSW filed in April 1997. The settlement is designed to increase PSW's annual revenue by $9,300 or 7.3% over the level in effect at the time of the filing. The rates in effect at the time of the filing included a 1% or $1,300 Distribution System Improvement Charge ("DSIC"). Consequently, the settlement resulted in a total base rate increase of $10,600 or 8.3%. As a part of the settlement, the DSIC was reset to zero and the Company agreed not to file a base rate increase request prior to April 1999, absent extraordinary circumstances.

PSW was permitted by the PUC to increase its base rates by 5.3% effective October 27, 1995 which was designed to provide additional annual revenues of approximately $6,150.

In 1996, the PUC approved PSW's request to add a DSIC to its water bills. The DSIC enabled PSW to add a surcharge to customer bills beginning January 1, 1997 reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service between base rate filings. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective. The maximum DSIC that can be in effect at any time is 5%. The DSIC increased revenues in 1997 by $1,104. In October 1997, the existing DSIC rate of 1.82% was eliminated with the adoption of new base rates.

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. The credit decreased revenues in 1995 by $504.

Discontinued Operations

The Board of Directors had authorized the sale of substantially all of the Company's non-regulated businesses and the last of these businesses was sold in 1993. 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 1997 and 1996, contingent sale proceeds of $250 and $337 were received and credited to the reserve. During 1996 and 1995,

$18 and $178 of payments associated with discontinued operations were charged to the reserve.

As a result of the continuing assessment of asserted and unasserted legal claims related to these businesses, the passage of time, which reduced certain lease contingencies, and the receipt of contingent sale proceeds, the Company has determined that, the net reserves were in excess of estimates of potential costs. Consequently, the contingent sale proceeds received in 1997 were included in Earned Revenues. In 1996 and 1995, the Company reversed $965 and $370 net of related income taxes, of these reserves. At December 31, 1997 there remains a balance in the reserve for discontinued operations of $1,009 which is included in other accrued liabilities.

Selected Quarterly Financial Data (Unaudited)

(in thousands of dollars, except per share amounts)

	First	Second	Third	Fourth	Total Year
1997					
Earned revenues	$ 31,021	$ 33,315	$ 36,754	$ 35,081	$ 136,171
Operating expenses	13,068	13,295	14,466	15,070	55,899
Net income available to common stock	4,460	5,778	7,323	5,432	22,993
Basic net income per common share	0.17	0.23	0.28	0.21	0.89
Diluted net income per common share	0.17	0.22	0.28	0.21	0.88
Dividend paid per common share	0.152	0.152	0.159	0.159	0.622
Price range of common stock					
- high	15.47	15.10	18.00	22.18	22.18
- low	11.72	11.44	14.07	15.10	11.44
1996					
Earned revenues	$ 29,290	$ 30,683	$ 30,831	$ 31,699	$ 122,503
Operating expenses	13,070	12,614	11,757	14,174	51,615
Income, continuing operations	3,968	5,281	5,847	4,661	19,757
Basic income per share, continuing operations	0.16	0.21	0.24	0.18	0.79
Diluted income per share, continuing operations	0.16	0.21	0.23	0.18	0.78
Income, discontinued operations	-	-	365	600	965
Basic and diluted income per share, discontinued operations	-	-	0.02	0.02	0.04
Net income available to common stock	3,968	5,281	6,212	5,261	20,722
Basic net income per common share	0.16	0.21	0.26	0.20	0.83
Diluted net income per common share	0.16	0.21	0.25	0.20	0.82
Dividend paid per common share	0.145	0.145	0.152	0.152	0.594
Price range of common stock					
- high	11.57	12.57	12.94	14.91	14.91
- low	10.26	11.25	11.63	12.38	10.26

All per share data as presented has been adjusted for the 1997 common stock split effected in the form of a stock distribution. High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES
SUMMARY OF SELECTED FINANCIAL DATA
(In thousands of dollars, except per share amounts)

Years ended December 31,	1997	1996*	1995*	1994*	1993*
PER COMMON SHARE:					
Income from continuing operations					
Basic	$ 0.89	$ 0.79	$ 0.75	$ 0.68	$ 0.64
Diluted	0.88	0.78	0.75	0.68	0.64
Net income					
Basic	0.89	0.83	0.77	0.68	0.64
Diluted	0.88	0.82	0.77	0.68	0.64
Cash dividends	0.62	0.59	0.57	0.55	0.54
Returns on average shareholders' equity(a)	12%	12%	12%	11%	11%
Book value at year end	$ 7.31	$ 6.91	$ 6.44	$ 6.14	$ 5.95
Market value at year end	22.08	14.91	10.38	9.06	9.19
INCOME STATEMENT HIGHLIGHTS:					
Earned revenues(a)	$136,171	$122,503	$117,044	$108,636	$101,244
Depreciation and amortization(a)	14,580	13,333	11,557	10,330	10,935
Interest expense (a)(b)	17,738	15,541	15,178	13,636	13,169
Income before income taxes(a)	39,061	33,749	30,931	27,209	24,261
Provision for income taxes(a)	15,873	13,971	12,901	11,571	10,426
Income from continuing operations	23,188	19,778	18,030	15,638	13,835
Net income available to common stock	22,993	20,772	18,400	15,638	13,835
BALANCE SHEET HIGHLIGHTS:					
Total assets	$618,472	$582,944	$518,051	$460,062	$440,935
Property, plant and equipment, net	534,483	502,938	436,905	385,709	366,230
Stockholders' equity	194,745	180,015	156,976	143,795	135,934
Preferred stock with mandatory redemption(c)	4,214	5,643	7,143	10,000	10,000
Long-term debt(c)	234,919	229,962	188,985	153,082	150,176
Total debt	245,319	235,522	195,440	157,132	150,995
ADDITIONAL INFORMATION:					
Net cash flows from operating activities(a)	$ 41,843	$ 37,422	$ 32,954	$ 29,730	$ 27,049
Capital additions(a)(d)	38,960	31,389	33,182	27,379	27,958
Dividends on common stock	16,129	14,795	13,546	12,637	11,629
Number of metered water customers	287,516	284,141	264,865	249,533	247,195
Number of shareholders of common stock	13,894	13,650	12,209	11,243	10,811
Common shares outstanding (000)	26,210	25,598	24,377	23,436	22,860
Employees (full-time)	531	540	535	525	523

*Share and per share data has been restated for the 1997 4-for-3 stock split.
(a) Continuing operations only.
(b) Includes dividend on preferred stock of subsidiary and is net of allowance for funds used during construction.
(c) Includes current portion.
(d) Excludes payments for acquired water systems of $1,226 in 1997, $42,122 in 1996, $26,351 in 1995, $612 in 1994 and $1,323 in 1993.

Exhibit 21
(unaudited)

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists all of the subsidiaries of the Company at December 31, 1997:

Philadelphia Suburban Water Company (Pa.)
Utility & Municipal Services, Inc. (Pa.)
PSC Services, Inc. (Del.)
Suburban Wastewater Company (Pa.)
Suburban Environmental Services, Inc. (Pa.)
Little Washington Wastewater Company (Pa.)
Drexel Hill Corporation (Pa.)
Pennsylvania Suburban Water Company (Pa.)
(formerly PSC Information Services)

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. 333-26613), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option Plan No. 33-27032), (1982 Stock Option Plan No. 2-81757); and on Form S-3 (Dividend Reinvestment and Direct Stock Purchase Plan No. 333-42275), (Customer Stock Purchase Plan No. 33-64301) of Philadelphia Suburban Corporation of our report dated January 28, 1998, relating to the consolidated balance sheets and the statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income and cash flow for each of the years in the three-year period ended December 31, 1997, which report is incorporated by reference in the December 31, 1997 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
March 20, 1998

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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at December 31, 1997, and the consolidated statements of income and cash flow for the year ended December 31, 1997, and is qualified in its entirety by reference to such financial statements.
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