SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the fiscal year ended December 31, 1994 — Commission File number 1-6659

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

Pennsylvania	23-1702594
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
762 Lancaster Avenue, Bryn Mawr, Pennsylvania	19010
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(610)-527-8000

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

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

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

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

Yes x No

State the aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 1995. $176,943,928

For purposes of determining this amount only, registrant has defined affiliates as including (a) the executive officers named in Part I of this 10-K report, (b) all directors of registrant, and (c) each shareholder that has informed registrant by March 1, 1995, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of March 1, 1995. 11,758,514

Documents incorporated by reference

(1) Portions of registrant's 1994 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 18, 1995 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K Report.

PART I

Item 1. Business

Philadelphia Suburban Corporation ("PSC" or the "Registrant"), a Pennsylvania corporation, was incorporated in 1968. The business of PSC is conducted almost entirely through its subsidiary Philadelphia Suburban Water Company ("PSW"), a regulated public utility. PSC also owns a small data processing service operation, Utility & Municipal Services, Inc. The information appearing in "Management's Discussion and Analysis" from the portions of PSC's 1994 Annual Report to shareholders filed as Exhibit 13.2 to this Form 10-K Report is incorporated by reference herein.

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

Consistent with that decision, PSW has completed five water system acquisitions in the last three years. In December 1994, PSW acquired the franchise rights and the water utility assets of two privately owned water companies for a total of $612,000 in cash. These water supply systems are located adjacent to PSW's existing service territory and had combined 1994 revenues of approximately $120,000 prior to the acquisitions. In December 1993, PSW acquired the water utility assets and franchise rights of the Borough of Malvern for $1,323,000 in cash. In December 1992, PSW acquired the water utility assets of the West Whiteland Township and the Uwchlan Township Municipal Authority water systems for $9,128,000 in cash and the issuance of $1,777,000 in debt. Combined, the latter three systems added 41 square miles of service territory adjacent to PSW's existing service territory and had revenues of approximately $2,480,000 in 1994.

Further, PSW submitted a proposal to purchase the water utility assets of Media Borough ("Media") for approximately $24,500,000. In November 1994, Media disclosed that it has selected PSW's proposal and has since enacted the necessary ordinance authorizing the transaction. The Media water system covers a 23 square mile service area contiguous to PSW's service territory. The transaction, which is subject to final negotiations and the approval of the Pennsylvania Public Utility Commission ("PUC"), is expected to be completed in the late spring or early summer of 1995.

PSW has also entered into preliminary agreements to acquire six water systems for a combined purchase price of approximately $7,300,000. These systems cover approximately 40 square miles and are adjacent or near to PSW's service territory. In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to it's service territory.

Philadelphia Suburban Water Company

General. PSW is an operating public utility company, which supplies water to approximately 249,533 residential, commercial, industrial and public customers. PSW's contiguous service territory is approximately 382 square miles, comprising a large portion of the suburban area west and north of the City of Philadelphia. This territory is primarily residential in nature and is completely metered, except for fire hydrant service.

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

Operating revenues during the twelve months ended December 31, 1994 were derived approximately as follows:

65.1%	from residential customers
21.5%	from commercial customers
4.9%	from industrial customers
1.2%	from public customers
6.6%	from fire protection services
.7%	from sales to other water utilities and miscellaneous customers
100.0%	

Item 1, Continued

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

Revenues from water sales (000's omitted)	1994	1993	1992
Residential	$69,545	$66,183	$58,738
Commercial	23,020	19,970	18,755
Industrial	5,175	4,568	4,387
Public	1,257	1,027	1,003
Fire protection	7,054	5,912	5,330
Other	848	1,095	1,057
Tax Surcharge	(97)	706	2,281
Total	$106,802	$99,461	$91,551
Water sales (million gallons)			
Residential	16,577	16,729	16,034
Commercial	7,804	7,441	7,146
Industrial	2,085	1,985	1,947
Public	324	294	277
Fire protection - metered	55	60	56
Other	261	401	383
Total	27,106	26,910	25,843
System delivery by source (million gallons)			
Surface (including Upper Merion reservoir)	25,386	24,635	24,230
Wells	5,037	5,466	4,642
Purchased	2,356	2,446	2,392
Total	32,779	32,547	31,264
Number of metered customers (end of year)			
Residential	234,624	232,684	230,740
Commercial	10,777	10,7	10,547
Industrial	833	832	837
Public	688	696	671
Fire protection	2,596	2,248	1,980
Other	15	15	13
Total	249,533	247,195	244,788

Average consumption per

customer in gallons	109,001	110,368	108,258
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Water supplies and usage. PSW derives its principal supply of water from the Schuylkill River, five rural streams which are tributaries of the Schuylkill and Delaware Rivers, and the Upper Merion Reservoir, a former quarry now impounding groundwater. All of these are either within or adjacent to PSW's service territory. PSW acquired the right to remove water from these sources, and in connection with such rights, PSW has secured the necessary regulatory approvals. PSW has constructed five impounding reservoirs and four treatment and pumping facilities to provide storage and purification of these surface water supplies.

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

PSW's surface supplies are supplemented by 40 wells. PSW also has interconnections with: the Chester Water Authority, which permits PSW to withdraw up to 6.2 million gallons per day ("mgd"); the Bucks County Water and Sewer Authority, which provides for a supply of up to 7.0 mgd; and the West Chester Area Municipal Authority, which provides up to a maximum of 1.0 mgd. Agreements regarding the first two interconnections require PSW to purchase certain minimum amounts of water. PSW believes it possesses all the necessary permits to obtain its supply of water from the sources indicated above.

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

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

Total	123.5 mgd
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During periods of normal precipitation, the safe yield is more than the minimum shown above. Under normal operating conditions, PSW can deliver a maximum of 139 mgd to its distribution system for short periods of time. The average daily sendout for 1994, 1993 and 1992 was 89.8, 89.1 and 85.4 mgd, respectively.

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

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

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

Water shortages. The Delaware River Basin, which is the drainage area of the

Delaware River from New York State to Delaware, periodically experiences water shortages during the summer months. To the extent that the reservoirs in the upper part of the Basin are affected by a lack of precipitation, the Delaware River Basin Commission (the "DRBC") may impose either voluntary or mandatory water use restrictions on portions or all of the Basin.

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

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

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

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

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

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

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

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

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

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

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

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

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

Utility & Municipal Services, Inc.

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

Employee Relations

As of December 31, 1994, the Registrant employed a total of 525 persons, of which 513 are employees of PSW. Hourly employees of PSW are represented by the International Brotherhood of Firemen and Oilers, Local No. 473. The contract with the union was renewed on December 1, 1994 for a three-year period. Management considers its employee relations to be satisfactory.

Item 2. Properties.

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

Item 2, Continued

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

Location	No. of Buildings	Description	Square Feet Floor Area
Pennsylvania	5	Office & warehouse	151,185
Pennsylvania	14	Pumping stations and treatment buildings	155,116
Pennsylvania	22	Well stations	App. 600 ea.
Pennsylvania	18	Well stations	App. 150 ea.
Pennsylvania	38	Booster stations	App. 1,100 ea.

In addition, PSW also owns 45 storage facilities for treated water throughout its service territory with a combined capacity of 139.1 million gallons and five surface water impounding reservoirs. The water utility also owns approximately 2,991 miles of transmission and distribution mains, has 249,533 active metered services and 11,030 fire hydrants.

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

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

Item 3. Legal Proceedings

There are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant.

As previously reported, there are two proceedings which arose from a fire in a warehouse in Newark, New Jersey, where hazardous substances were alleged to have been stored. PSW was involved or potentially involved because it was alleged that, out of more than 2,000 drums of material at the warehouse, one of the drums had originated from PSW. One of these proceedings has been dismissed and the other is in settlement discussions and is not expected to have 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 1994.

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

PART II

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

The Company's common stock is traded on the New York Stock Exchange and the Philadelphia Stock Exchange. As of March 1, 1995, there were approximately 11,260 holders of record of the Company's common stock.

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

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
			1994		
Earned revenues	24,849	$26,730	$28,849	$28,208	$108,636
Operating expenses	12,056	12,001	12,511	13,728	50,296
Net income	2,949	4,035	4,897	3,757	15,638
Net income per share	.26	.35	.42	.32	1.35
Dividend paid per share	.27	.27	.28	.28	1.10
Price range of common stock					
- high	19.63	18.50	19.38	18.75	19.63
- low	17.38	17.13	17.50	17.25	17.13
			1993		
Earned revenues	$22,726	$25,048	$27,948	$25,522	$101,244
Operating expenses	10,733	11,205	12,078	11,973	45,989
Net income	2,587	3,604	4,257	3,387	13,835
Net income per share	.26	.33	.38	.30	1.27
Dividend paid per share	.26	.27	.27	.27	1.07
Price range of common stock					
- high	18.25	18.38	20.75	20.13	20.75
- low	15.63	17.25	18.13	17.75	15.63

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

	Cash dividend per share	Income per share from continuing operations	Payout ratio
1990	$1.00	$1.27	79%

1991	1.00	1.29	78
1992	1.04	1.23	85
1993	1.07	1.27	84
1994	1.10	1.35	81

Dividends have averaged approximately 81% of income from continuing operations during this period. In May 1994, the annual dividend increased by 3.7% to $1.12 beginning with the September 1994 dividend.

Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of the Company's 1994 Annual Report to shareholders filed as Exhibit 13.2 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 1994 Annual Report to shareholders filed as Exhibit 13.2 to this Form 10-K Report is incorporated by reference herein.

Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" and "Notes to Consolidated Financial Statements" from the portions of the Company's 1994 Annual Report to shareholders filed as Exhibit 13.2 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 1994 Annual Report to shareholders filed as Exhibit 13.2 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 18, 1995, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

Executive Officers of the Registrant

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

Name	Age	Position with the Registrant and date of election (1)
Nicholas DeBenedictis	49	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)

Robert A. Luksa	60	Vice Chairman, Philadelphia Suburban Water Company (February 1995 to present); President, Philadelphia Suburban Water Company (October 1986 to February 1995) (3)
Richard R. Riegler	48	Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to present) (4)
Roy H. Stahl	42	Senior Vice President and General Counsel (April 1991 to present) (5)
Michael P. Graham	46	Senior Vice President - Finance and Treasurer (March 1993 to present) (6)

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

(2) Mr. DeBenedictis was Secretary of the Pennsylvania Department of Environmental Resources from 1983 to 1986. From December 1986 to April 1989, he was President of the Greater Philadelphia Chamber of Commerce. Mr. DeBenedictis was Senior Vice President for Corporate and Public Affairs of Philadelphia Electric Company from April 1989 to June 1992.

(3) Mr. Luksa was Executive Vice President of PSW from April 1982 to October 1986 and from 1971 to April 1982 he was Vice President and Chief Engineer of this subsidiary.

(4) 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.

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

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

Item 11. Management Remuneration

The information appearing in the sections captioned "Compensation of Directors and Executive Officers" of the Proxy Statement relating to the May 18, 1995, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information appearing in the sections captioned "Ownership of Common Stock" of the Proxy Statement relating to the May 18, 1995, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

The information appearing in the sections captioned "Other Remuneration and Certain Transactions" of the Proxy Statement relating to the May 18, 1995, annual meeting of shareholders of the Company, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, is incorporated by reference herein.

PART IV

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

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

Management's Report

Independent Auditors' Report

Consolidated Balance Sheets - December 31, 1994 and 1993

Consolidated Statements of Income - 1994, 1993 and 1992

Consolidated Statements of Cash Flow - 1994, 1993, and 1992

Notes to Consolidated Financial Statements

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

Reports on Form 8-K. The Company filed no report on Form 8-K during the quarter ended December 31, 1994.

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

EXHIBIT INDEX

Exhibit No.		Page No.
3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	-
3.2	By-Laws, as amended (1) (Exhibit 3.2)	-
4.1	Indenture of Mortgage dated as of January 1, 1941 between Philadelphia Suburban Water Company and The Pennsylvania Company for Insurance on Lives and Granting Annuities(now First Pennsylvania	-

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

Exhibit No.		Page No.
4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	-
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	-
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (12) (Exhibit 4.15)	-
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity Bank, N.A. and Meridian Bank, N.A. dated as of March 17, 1994 (12) (Exhibit 4.16)	-
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* (12) (Exhibit 10.10)	-
10.11	1995 Incentive Compensation Plan*	20
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)	-
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	26

EXHIBIT INDEX, Continued

Exhibit No.		Page No.
22.	Subsidiaries of Philadelphia Suburban Corporation	64
24.	Consent of Independent Auditors	65
25.	Power of Attorney (set forth as a part of this report)	18
27.	Financial Data Schedule	66

- 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.

* 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 13, 1995

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 H. Austin, Jr. Director	Claudio Elia -------------------------------- Claudio Elia Director
John W. Boyer, Jr. - - -------------------------------- John W. Boyer, Jr. Director	Michael P. Graham -------------------------------- Michael P. Graham Senior Vice President - Finance and Treasurer (principal financial and accounting officer)
Mary C. Carroll - - -------------------------------- Mary C. Carroll Director	Joseph C. Ladd -------------------------------- Joseph C. Ladd Director
Nicholas DeBenedictis - - -------------------------------- Nicholas DeBenedictis President and Chairman (principal executive officer) and Director	John F. McCaughan -------------------------------- John F. McCaughan Director
G. Fred DiBona, Jr. - - -------------------------------- G. Fred DiBona, Jr. Director	-------------------------------- Harvey J. Wilson Director

EXHIBIT 10.11

PHILADELPHIA SUBURBAN CORPORATION
PHILADELPHIA SUBURBAN WATER COMPANY
1995 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 program has two components - a Management Incentive Plan and an Employee Recognition Plan.

-- The Plan is designed to provide an appropriate incentive to the officers and managers of the Company in the form of proprietary interest in the Company. The 1995 Management Incentive Plan will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries, except Utility & Municipal Services, Inc., which is covered by a separate incentive bonus arrangement based on the profitability of that subsidiary.

MANAGEMENT INCENTIVE PLAN

-- 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 benefit of having a plan tied to the Company's income performance to shareholders is appropriate as the participants' assume some of the same risks and rewards as the shareholders. Ratepayers, however, also benefit as improvements in performance is accomplished by controlling costs, improving efficiencies, and customer service. For these reasons, rate requests should be reduced and less frequent, which directly benefits the ratepayer and the shareholder.

  -- 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 1995, 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.

-- Participation

- -- Participation in the Plan will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 40 percent of salary depending on duties and responsibilities.

- -- Actual bonuses may range from 0, if the Company's financial results fall below threshold or the participant's performance rating is below expectations, (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.

- -- Exhibit 1 shows the recommended participants and the Target Bonus Percentages for the current year.

-- Company Performance

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

	Percent of 1995 Plan	Company Rating
Threshold.............	90%	50%
	92	65
	95	80
	96	85
	97	90
	98	94
	99	97
Plan..................	100	100
	105	110
	>110	125

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

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

-- Individual Performance

- -- Individual performance will be measured on the following scale:

Performance Measure Points	Individual Rating

0 - 69	0%
70	70%
80	80%
90	90%
100	100%
110	110%
120	120%
130	130%

-- In addition, up to 20 additional points may be awarded to a participant at the discretion of the Chief Executive Officer.

-- Estimated Cost
  -- Exhibit 3 shows the estimated cost of the 1995 plan year assuming a 100 percent Company Rating and all individuals receive a 100 percent Individual Rating.

Sample Calculations

-- Example 1

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

Calculation:

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

-- Example 2
  -- Using the same salary and target bonus, but assuming Company performance was less than 90 percent of Target Net Income, there would be no bonus earned.

Calculation:
$7,000 x 0 x 90% = 0

-- Example 3
  -- Similarly, if individual Performance is rated Below Expectations, no bonus would be earned regardless of the Company Rating.

Calculation:
$7,000 x 100% x 0 = 0

EMPLOYEE RECOGNITION PLAN

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

-- Awards will be made from an annual pool, not to exceed $65,000 (which represents approximately .8% of the base payroll for the non-union employees who do not participate in the Management Incentive Plan), established at the beginning of the year. Unused funds would not be carried over to the next year.

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

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

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

EXHIBIT 1

PHILADELPHIA SUBURBAN CORPORATION

Recommended 1995 Participants

NAME	TITLE	TARGET BONUS PERCENTAGE
OFFICERS		
N. DeBenedictis	Chief Executive Officer	40%
M. Graham	Sr. V.P. Finance and Treasurer	25
R. Riegler	Sr. V.P. Operations	25
R. Stahl	Sr. V.P. Law & Administration	25
M. Coulter	V.P. Production	20
H. Coleman	V.P. Customer Service	20
R. Hugus	V.P. Corporate Development	25
W. McIntyre	V.P. Maintenance & Construction	15
D. Smeltzer	V.P. Rates/Regulatory Affairs	15
L. Chain	Controller	15
MANAGERS		
P. Mycek	Corporate Secretary	5
Y. Snyder	Mgr., Finance and Budget	5
L. Doyle	Mgr. Meter Operations	5
J. Delzingaro	AMR Project Manger	5
G. Harmon	Mgr., Customer Service	5
R. Griffin	Mgr., Rates & Revenues	5
D. Mahoney	Mgr., Drafting/Records	5
A. Fernandes	Mgr., Eng. Design/Construction	5
S. Draper	Mgr., MIS	5
S. Broussard	Mgr., Human Resources	5
R. Rubin	Assist.Controller	5
G. Smith	Mgr., Facilities	5
D. Bruce	Mgr., Transportation	5
R. Dollfus	Mgr., Great Valley Division	10
C. Hertz	Mgr., Laboratory Tech. Services	10
J. Grantland	Mgr., Distribution	10
J. Dennin	Mgr., Eastern Division	10
D. Gorbey	Mgr., Southern & Western Division	10
R. Germon	Mgr., Mech./Elect.	10
P. Luitweiler	Mgr., Res./Env. Affairs/Grndwater	10
J. Ritter	Mgr., Treatment/Quality Control	10
T. Kiely	Chief Engineer	10
T. Yohe	Sr. Mgr., Water Quality Group	10
R. Robinson	Sr. Mgr., Special Services	10
M. Kropilak	Corporate Counsel	10
R. Linneman	Sr. Mgr., Information Services	10

C. Franklin	Sr. Mgr., Corp. & Public Affairs	10
M. Broderick	Financial Information System Spec.	10
D. Donatoni	Sr. Mgr., Marketing & Corp. Devel.	10
R. Cocco	Sr. Mgr., Admin. Support Services	10

UMS
- - ---

R. Harlan	Mgr., IS Customer Service	5
W. Barrett	Mgr., IS Technical Services	5

EXHIBIT 13.2

SELECTED PORTIONS OF ANNUAL REPORT TO SHAREHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 1994

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(In thousands of dollars, except per share amounts)
Years ended December 31, 1994, 1993 and 1992

	1994	1993	1992
Earned revenues	$ 108,636	$ 101,244	$ 93,307
Costs and expenses:			
Operating expenses	50,296	45,989	43,024
Depreciation	10,468	9,927	8,646
Amortization	(138)	1,008	800
Taxes other than income taxes	7,165	6,890	6,500
	67,791	63,814	58,970
Operating income from continuing operations	40,845	37,430	34,337
Interest and debt expenses	12,896	13,108	15,068
Dividends on preferred stock	866	866	866
Allowance for funds used during construction	(126)	(805)	(258)
Income from continuing operations before income taxes	27,209	24,261	18,661
Provision for income taxes	11,571	10,426	8,035
Income from continuing operations	15,638	13,835	10,626
Loss on disposition of discontinued operations, including provision in 1992 of $2,120 for operating losses since the measurement dates, net of income tax benefits of $2,950	--	--	(5,500)
Extraordinary charge from early retirement of debt, net of income tax benefits of $429	--	--	(834)
Net Income	$ 15,638	$ 13,835	
$ 4,292			
Net income (loss) per share			
Continuing operations	$ 1.35	$ 1.27	$ 1.23
Discontinued operations	--	--	(.63)
Extraordinary charge	--	--	(.10)
Total	$ 1.35	$ 1.27	$ .50
Average common and common equivalent shares outstanding during the period	11,564	10,858	8,635

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

December 31, 1994 and 1993

Assets	1994	1993
Property, plant and equipment, at cost	$ 462,500	$ 433,302
Less accumulated depreciation	76,791	67,072
Net property, plant and equipment	385,709	366,230
Current assets:		
Cash	(636)	(868)
Accounts receivable, net	19,303	18,131
Inventory, materials and supplies	1,696	1,721
Prepayments and other current assets	594	532
Total current assets	20,957	19,516
Regulatory assets	48,334	51,229
Deferred charges and other assets, net	3,183	2,704
	$ 458,183	$ 439,679

Liabilities and Stockholders' Equity	1994	1993
Common stockholders' equity:		
Common stock at par value net of $3,239 and $1,257 of Treasury shares in 1994 and 1993	$ 2,740	$ 4,526
Capital in excess of par value	102,564	95,918
Retained earnings	38,491	35,490
Total common stockholders' equity	143,795	135,934
Preferred stock of subsidiary with mandatory redemption requirements	7,143	10,000
Long-term debt, excluding current portion	152,195	145,292
Commitments	--	--
Current liabilities:		
Current portion of preferred stock of subsidiary with mandatory redemption requirements	2,857	--
Current portion of long-term debt	887	4,884
Loans payable	4,050	819
Accounts payable	5,626	3,381
Accrued interest	3,346	3,439
Other accrued liabilities	9,912	9,269
Net reserves related to discontinued operations	2,701	2,578
Total current liabilities	29,379	24,370
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	67,721	69,137
Customers' advances for construction	24,713	24,379
Other	11,028	8,926
Total deferred credits and other liabilities	103,462	102,442
Contributions in aid of construction	22,209	21,641
	$ 458,183	$ 439,679

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 1994, 1993 and 1992

	1994	1993	1992
Cash flows from operating activities:			
Income from continuing operations	$ 15,638	$ 13,835	$ 10,626
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	10,330	10,935	9,446
Deferred taxes, net of taxes on customers' advances	2,693	3,061	399
Net decrease (increase) in receivables, inventory and prepayments	(1,209)	(1,438)	1,584
Net increase in payables and other accrued liabilities	1,614	1,245	2,019
Net decrease in accrued interest	(93)	(158)	(927)
Other	134	(540)	(509)
Net cash flows from operating activities	29,107	26,940	22,638
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of $126, $805 and $258	(27,379)	(27,958)	(21,719)
Acquisitions of water systems	(612)	(1,323)	(9,128)
Sale of businesses and related assets	--	1,665	976
Other	(10)	(40)	190
Net cash flows from investing activities	(28,001)	(27,656)	(29,681)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction, net of income tax payments	3,149	2,483	3,248
Repayments of customers' advances	(2,219)	(2,904)	(2,398)
Net proceeds (repayments) of short-term debt	3,231	(140)	799
Proceeds from long-term debt	7,722	21,839	24,174
Repayments of long-term debt including premium on early retirement	(4,884)	(34,559)	(38,008)
Proceeds from issuing common stock	6,916	27,749	25,950
Repurchase of common stock	(2,230)	(992)	(26)
Dividends paid	(12,637)	(11,629)	(8,866)
Other	(45)	(104)	--
Net cash flows from financing activities	(997)	1,743	4,873
Net cash flows from discontinued operations	123	(1,183)	(1,537)
Net increase (decrease) in cash	232	(156)	(3,707)
Cash balance (deficit) beginning of year	(868)	(712)	2,995
Cash deficit end of year	$ (636)	$ (868)	$ (712)

See accompanying notes to consolidated financial statements.

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

Summary of Significant Accounting Policies

- - ---

Consolidation
- - -------------

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

Recognition of Revenues
- - -----------------------

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

Non-utility revenues are recognized when services are performed.

Property, Plant and Equipment and Depreciation
- - --

Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Utility plant acquired is recorded at estimated original cost when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 1994, utility plant includes a credit acquisition adjustment of $8,486 which is being amortized over 20 years. Consistent with the June 1994 rate settlement, $822 was amortized into income during 1994, including $338 of amortization related to 1993.

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

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

Allowance for Funds Used During Construction
- - --

The allowance for funds used during construction ("AFUDC") represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. There was no AFUDC related to equity funds in 1994. The amount of AFUDC related to equity funds was $338 and $147 in 1993 and 1992 respectively.

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

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

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

Income Taxes

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

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

Customers' Advances for Construction

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

Contributions in Aid of Construction

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

Inventories, Materials and Supplies
- - ----------------------------------

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

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

In December 1994, PSW acquired the franchise rights and the water utility assets of two privately-owned water companies for a total of $612 in cash. These water supply systems are located adjacent to PSW's existing service territory. The combined annual revenues from these systems prior to the acquisitions approximated $120.

In December 1993, PSW acquired the franchise rights and the water utility assets of the Borough of Malvern for $1,323 in cash. This water supply system is located in a one square mile area surrounded by PSW's existing service territory. Revenues included in the consolidated financial statements related to the acquired water supply system amounted to approximately $290 in 1994.

In December 1992, PSW acquired the franchise rights and the water utility assets of the West Whiteland Township and the Uwchlan Township Municipal Authority water systems for $9,128 in cash and issuance of a 9% installment note for $1,777. These water supply systems are located in a 40 square mile area contiguous to PSW's service territory. Revenues included in the consolidated financial statements related to the acquired water supply systems amounted to approximately $2,193 and $2,052 in 1994 and 1993, respectively. Assets acquired in each of the aforementioned transactions consist primarily of utility plant in service.

PSW submitted a proposal to purchase the water utility assets of Media Borough ("Media") for approximately $24,500. In November 1994, Media announced that it had selected PSW's proposal, and has since enacted the necessary ordinance authorizing the transaction. The Media water system covers over 23 square miles contiguous to PSW's service territory. Annual revenues from this system approximate $5,000. The transaction, which is subject to final negotiations and PUC approval, is expected to be completed in the late spring or early summer of 1995.

PSW has also entered into preliminary agreements to acquire six small water systems for a combined purchase price of approximately $7,300, including, subject to final negotiations, the issuance of up to $5,000 of the Company's preferred stock. These systems cover approximately 40 square miles adjacent or near to PSW's service territory. The combined annual revenues of these systems approximate $1,000. In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to it's service territory.

Discontinued Operations
- - -----------------------

The Board of Directors authorized the sale of substantially all of the Company's non-regulated businesses. The decision to sell Mentor Information Systems, Inc., Digital Systems, Inc., Stoner Associates, Inc., Kesler Engineering, Inc. and American Tele/Response Group, Inc. occurred in September 1990 and the decision to sell PSC Engineers and Consultants, Inc. occurred in March 1991 (the measurement dates). During 1991, all these businesses were sold except for American Tele/Response Group, Inc. and Kesler Engineering, Inc., which were sold in the first quarter of 1993. The sale of the two companies in 1993 had no impact on the results of operations in 1993. As a result of deterioration in the operating results and backlog of future work at the remaining businesses for sale during 1992, and a substantial reduction in the estimated net proceeds from the ultimate disposition of the businesses, a charge of $5,500 was taken in 1992 to reflect the Company's revised estimate of the ultimate loss on the disposition of these businesses.

(In thousands of dollars, except per share amounts)

Net reserves related to discontinued operations consist primarily of reserves for future and contingent costs associated with the discontinued operations. These costs, which are recorded on the balance sheet net of related income tax benefits, include administrative and legal services, contingent legal and lease obligations and certain employee costs. The notes to the consolidated financial statements relate to continuing operations, except where otherwise indicated.

Financial information on the discontinued operations for the periods prior to their sale is as follows:

	Years Ended December 31,	
	1993	1992
Revenues	$ 654	$10,693
Operating expenses	1,783	13,163
Operating loss before income taxes	(1,129)	(2,470)
Income tax benefits	(378)	(771)
Operating loss	(751)	(1,699)
Provision for loss on disposal	751	(3,801)
Loss from discontinued operations	$ -	$(5,500)

The last of these companies was sold in 1993 and, as such, operating results are not comparable for the years presented.

Operating expenses of the discontinued operations reflect allocated interest charges of $271 in 1992, and other costs of $773 and $228, which were specifically associated with these operations in 1993 and 1992, respectively. During 1994, $162 of payments associated with discontinued operations were charged to the reserve. In addition, proceeds of $285 were received during 1994, from the sale of land that was previously owned by one of the businesses sold. The proceeds approximated the original cost of the land, which was included in the reserve. The effective tax rates of the discontinued operations differ from statutory rates primarily because of the nondeductibility of goodwill amortization in computing the taxable loss.

Income Taxes

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

(In thousands of dollars, except per share amounts)

Total income tax expense is allocated as follows:

	Years Ended December 31,	
	1994	1993
Income from continuing operations	$11,571	$10,426
Common stockholders' equity related to stock option activity which reduces taxable income	(25)	(65)
	$11,546	$10,361

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

	Years Ended December 31,		
	1994	1993	1992
Current:			
Federal	$ 6,670	$ 4,538	$ 5,273
State	2,685	2,879	2,401
	9,355	7,417	7,674
Deferred:			
Federal	2,303	3,377	500
State	(87)	(368)	(139)
	2,216	3,009	361
Total tax expense	$ 11,571	$ 10,426	$ 8,035

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

	Years Ended December 31,		
	1994	1993	1992
Excess of tax over financial statement depreciation	$ 2,791	$ 2,112	$ 2,009
Amortization of deferred investment tax credits	(151)	(152)	(151)
Current year investment tax credits deferred	75	93	133
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse			

through depreciation	902	889	466
Customers' advances for construction, net	(657)	(934)	(678)
Effect of change in tax accounting method	--	--	(866)
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	(4,220)	2,120	--
Adjustment to recognize future rate recovery	4,220	(2,116)	--
Other, net	(744)	997	(552)
Total deferred income tax expense	$ 2,216	$ 3,009	$ 361

The statutory Federal tax rate increased to 35% in 1993. The Pennsylvania Corporate Net Income Tax rate decreased to 11.99% in 1994, 10.99% in 1995, 10.75% in 1996, and 9.99% in 1997 and thereafter.

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

	Years Ended December 31,		
	1994	1993	1992
Computed Federal tax expense at statutory rate	$ 8,614	$ 7,613	$ 5,576
Increase (decrease) in tax expense for items to be recovered in future rates:			
Depreciation expense	154	151	126
Losses on asset disposals	(10)	(49)	(67)
Amortization of deferred investment tax credits	(151)	(153)	(151)
Preferred stock dividend	303	303	294
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	(4,220)	2,120	--
Adjustment to recognize future rate recovery	4,220	(2,116)	--
Other, net	63	46	(5)
Actual Federal tax expense	$ 8,973	$ 7,915	$ 5,773

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,	
	1994	1993
Deferred tax assets:		
Customers' advances for construction	$ 9,507	$ 8,851
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	1,217	845
Other	363	386

(In thousands of dollars, except per share amounts)

Total gross deferred tax assets	11,087	10,082
Less valuation allowance	--	--
Net deferred tax assets	11,087	10,082
Deferred tax liabilities:		
Utility Plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	56,360	54,269
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	17,722	19,864
Deferred investment tax credit	4,424	4,500
Other	302	586
Total gross deferred tax liabilities	78,808	79,219
Net deferred tax liability	$67,721	$69,137

The Company made income tax payments, which include amounts related to discontinued operations, of $8,818, $7,786 and $5,134 in 1994, 1993 and 1992, respectively. The Company's Federal income tax returns for all years through 1991 have been closed.

Accounts Receivable

	December 31, 1994	December 31, 1993
Billed water revenue	$ 8,267	$ 7,299
Unbilled water revenue	11,014	10,531
Non-utility revenue	222	501
	19,503	18,331
Less allowance for doubtful accounts	200	200
Net accounts receivable	$19,303	$18,131

All of the Company's customers are located in southeastern Pennsylvania. No single customer accounted for more than five percent of the Company's sales in 1994 or 1993 and no account receivable from any customer exceeded five percent of the Company's total stockholders' equity.

Property, Plant and Equipment

	December 31, 1994	December 31, 1993
Utility plant and equipment	$455,926	$428,737
Utility construction work in progress	4,301	2,307
Non-utility plant and equipment	2,273	2,258
Total property, plant and equipment	$462,500	$433,302

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.

(In thousands of dollars, except per share amounts)

Regulatory Asset

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

	December 31, 1994	December 31, 1993
Income Taxes	$45,952	$49,533
Postretirement Benefits other than Pensions	2,382	1,696
	$48,334	$51,229

Commitments

PSW maintains agreements with the Chester Water Authority and the Bucks County Water and Sewer Authority for the purchase of water in order to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2017. The estimated annual commitments related to such purchases total approximately $2,637 through 1999. PSW purchased approximately $3,322, $2,922 and $2,649 of water under these agreements during the years ended December 31, 1994, 1993 and 1992, respectively.

PSW leases motor vehicles and other equipment under operating leases which are non-cancelable and expire on various dates through 1999. During the next five years, $1,559 of future minimum lease payments are due: $662 in 1995, $417 in 1996, $294 in 1997, $155 in 1998 and $31 in 1999. Rent expense was $979, $1,134 and $1,019 for the years ended December 31, 1994, 1993 and 1992, respectively.

Long-term Debt and Loans Payable

	December 31, 1994	December 31, 1993
First Mortgage Bonds secured by utility plant:		
4.550% Series, due 1994 (a)	$ -	$ 4,000
5.500% Series, due 1996 (a)	4,000	4,000

(In thousands of dollars, except per share amounts)

7.875% Series, due 1997 (a)	5,000	5,000
8.440% Series, due 1997 (c)	12,000	12,000
8.400% Series, due 2002 (b)	4,600	5,050
5.950% Series, due 2002 (b)	3,200	3,600
13.000% Series, due 2005 (b)	8,000	8,000
10.650% Series, due 2006 (b)	10,000	10,000
9.890% Series, due 2008 (c)	5,000	5,000
7.150% Series, due 2008 (b)	22,000	22,000
9.120% Series, due 2010 (c)	20,000	20,000
6.500% Series, due 2010 (b)	3,200	3,200
9.170% Series, due 2011 (c)	5,000	5,000
9.930% Series, due 2013 (c)	5,000	5,000
9.970% Series, due 2018 (c)	5,000	5,000
9.170% Series, due 2021 (b)	8,000	8,000
9.290% Series, due 2026 (c)	12,000	12,000
Total First Mortgage Bonds	132,000	136,850
Note payable to bank under revolving credit agreement, due March 1998	19,370	-
Note payable to bank under revolving credit agreement, due February 1994	-	11,580
Installment note payable, 9%, due in equal annual payments through December 2013	1,712	1,746
	153,082	150,176
Current portion of long-term debt	887	4,884
Long-term debt, excluding current portion	$152,195	$145,292
Proforma weighted cost of long-term debt at December 31,	8.5%	8.4%

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

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

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

The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of PSW to declare dividends, in cash or property, or repurchase or otherwise acquire PSW's stock. As of December 31, 1994, approximately $67,000 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:

(In thousands of dollars, except per share amounts)

	1995	1996	1997	1998	1999
Sinking fund payments	$ 850	$ 1,650	$ 2,650	$4,650	$4,650
Maturities	37	4,040	17,044	48	52
Total	$ 887	$ 5,690	$19,694	$4,698	$4,702

In April 1993, PSW issued $22,000 First Mortgage Bonds 7.15% Series due 2008. Proceeds from this issue were used to fund the 1993 retirement of the First Mortgage Bonds noted below and to repay amounts outstanding under PSW's revolving credit agreement.

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

In February 1994, PSW entered into a new $30,000 revolving credit agreement due March 1998 with four banks. 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 $22,000 revolving credit facility which expired in February 1994 was repaid with proceeds from the new revolving credit facility. The terms of this facility and the interest rate selection were substantially the same as the new facility. At December 31, 1993, $11,580 borrowed under this revolving credit agreement was classified as long-term debt because funds from the new facility were used to repay amounts outstanding. The combined average cost of borrowing under both revolving credit facilities was 4.8% and 4.0%, and the average borrowing was $19,136 and $11,723, during 1994 and 1993, respectively.

At December 31, 1994 and 1993, the Company and PSW had combined short-term lines of credit of $10,000 and $4,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was $880 and $393 during 1994 and 1993, respectively. The maximum amount outstanding at the end of any one month was $4,050 in 1994 and $819 in 1993. 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 1994 and 1993 was 6.3% and 4.4%, respectively.

(In thousands of dollars, except per share amounts)

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

The total amount of interest paid on all borrowings, net of amounts capitalized, was $13,729, $13,327 and $16,876 in 1994, 1993 and 1992, respectively.

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amounts and estimated fair values of the Company's long-term financial liabilities as of December 31, 1994 are as follows:

	Carrying amount	Estimated fair value
Long-term debt	$153,082	$162,033
Preferred stock of subsidiary with mandatory redemption requirements	10,000	10,054

The fair value of long-term debt and preferred stock has been determined by discounting their future cash flows using current market interest or dividend rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have carrying values of $24,713 and $6,764, respectively at December 31, 1994. 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 2016, and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Preferred Stock of Subsidiary with Mandatory Redemption Requirements

PSW is authorized to issue up to 1,000,000 shares of preferred stock, with stated par value, in one or more series. In 1991, PSW issued 100,000 shares of 8.66% Series 1 Cumulative Preferred Stock, at par value of $100 per share in a private placement. Dividends on this issue are payable quarterly and are cumulative. PSW may not pay dividends on its common stock unless provision has been made for payment of the preferred dividends. As of December 31, 1994, 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 starting in 1995. In addition, PSW has the right to call 14,285 shares per year starting in 1995, up to a maximum of 15,000 shares over the life of the issue, at par, and the balance beginning in 1998 at a specified price above par.

(In thousands of dollars, except per share amounts)

In December 1994, PSW provided notice to the holder of the preferred stock of its intention to call 14,285 shares at par value in January 1995 in addition to the mandatory redemption of 14,285 shares required by the share purchase agreement and, therefore, $2,857 has been classified as the current portion of preferred stock as of December 31, 1994.

Net Income per Share and Equity per Common Share

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

Equity per common share was $12.27 and $11.89 at December 31, 1994 and 1993, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Common Stockholders' Equity

At December 31, 1994, the Company had 20,000,000 shares of common stock authorized; par value $.50. Shares outstanding at December 31, 1994, 1993 and 1992 were 11,717,990, 11,429,968 and 9,831,824, respectively. Treasury shares held at December 31, 1994, 1993 and 1992 were 240,737, 135,472 and 83,837, respectively.

At December 31, 1994, the Company had 1,770,819 shares of authorized but unissued Series Preferred Stock, $1.00 par value.

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Total
Balance at December 31, 1991	$ 4,058	$ (239)	$43,944	$ 37,858	$ 85,621
Net income	--	--	--	4,292	4,292
Dividends	--	--	--	(8,866)	(8,866)
Sale of stock	869	--	24,322	--	25,191
Repurchase of stock	--	(26)	--	--	(26)
Exercise of stock options	31	--	728	--	759
Balance at December 31, 1992	4,958	(265)	68,994	33,284	106,971
Net income	--	--	--	13,835	13,835
Dividends	--	--	--	(11,629)	(11,629)
Sale of stock	759	--	25,111	--	25,870
Repurchase of stock	--	(992)	--	--	(992)
Exercise of stock options	66	--	1,813	--	1,879
Balance at December 31, 1993	5,783	(1,257)	95,918	35,490	135,934
Net income	--	--	--	15,638	15,638
Dividends	--	--	--	(12,637)	(12,637)
Sale of stock	175	248	6,022	--	6,445
Repurchase of stock	--	(2,230)	--	--	(2,230)
Executive Incentive Award Plan	5	--	174	--	179

(In thousands of dollars, except per share amounts)

Exercise of stock options	16	--	450	--	466
Balance at December 31, 1994	$ 5,979	$ (3,239)	$ 10	$ 38,491	$ 143,795

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

The Company has a Customer Stock Purchase Program for PSW's customers, and a Dividend Reinvestment and Optional Stock Purchase Program for existing shareholders. Reinvested dividends can be used to purchase shares of common stock at a five percent discount from the current market value under the Dividend Reinvestment Program. Under these programs, 350,818, 417,501 and 1,737,461 shares of common stock were sold providing the Company with $6,191, $7,539 and $25,191 of additional capital, after expenses, during 1994, 1993 and 1992, respectively.

In August 1993, the Board of Directors approved a resolution authorizing the Company to purchase, from time to time, up to 250,000 shares of its common stock in the open market or through privately negotiated transactions. The number of shares purchased by the Company, if any, is limited to the number of shares sold under its Employee Stock Option Plans, Customer Stock Purchase Program, Dividend Reinvestment Program or Optional Stock Purchase Program. The purchase of shares has been authorized in order to offset the dilutive effect on earnings per share of issuances of additional shares under these programs. Funding for any stock purchases is not expected to have a material impact on the Company's financial position. During 1994 and 1993, 118,867 and 51,635 shares have been purchased at a net cost of $2,230 and $992, respectively.

Shareholder Rights Plan

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

(In thousands of dollars, except per share amounts)

Employee Stock and Incentive Plans

In May 1994, the 1994 Equity Compensation Plan ("1994 Plan") was approved by the shareholders to replace the 1988 Stock Option Plan ("1988 Plan"). Under the 1994 Plan 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. The 1994 Plan authorizes up to 450,000 shares of common stock for issuance under the plan, with the maximum number of restricted stock grants limited to 25,000 shares. The 1988 Plan provided only for the issuance of qualified and non-qualified stock options. Awards under these plans are made by the Board of Directors ("Board")or a committee of the Board.

Options under both the 1994 and 1988 plans, as well as an earlier 1982 Stock Option Plan for which 32,416 options are still outstanding, were issued at the market price of the stock on the day of the grant. Options are exercisable in installments ranging from 20% to 33% annually starting one year from the date of the grant and expire 10 years from the date of the grant.

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

	Years Ended December 31, 1994	1993	1992
Options granted	115,500	128,000	130,000
Options terminated	(7,000)	(95,100)	(2,500)
Options exercised	(32,469)	(136,800)	(61,550)
Net change	76,031	(103,900)	65,950
Balance of shares under option	460,331	384,300	488,200

Options exercised during 1994 ranged in price from $12.88 per share to $17.13 per share. The shares under option at December 31, 1994 are exercisable at prices ranging from $12.88 to $17.94 per share. At December 31, 1994, 156,891 shares were exercisable, and 324,500 options under the 1994 Plan were available for grant.

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

(In thousands of dollars, except per share amounts)

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and this amount is amortized ratably over the restriction period. During the year, 10,000 shares of restricted stock were granted with restriction periods of 1 to 3 years. During the year, the restrictions on a 1989 award of 10,000 shares under a prior plan lapsed and the shares were released to the grantee.

Pension Plans and Other Postretirement Benefits

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

The Company's pension expense includes the following components:

	Years Ended December 31,		
	1994	1993	1992
Benefits earned during the year	$1,183	$1,062	$ 897
Interest cost on projected benefit obligation	3,161	3,026	2,758
Actual return on plan assets	1,218	(4,989)	(2,571)
Net amortization and deferral	(4,679)	1,643	(764)
Capitalized costs	(74)	(69)	-
Rate-regulated adjustment	(386)	(375)	(320)
Net pension cost	$ 423	$ 298	$ -

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

(In thousands of dollars, except per share amounts)

The assets and obligations of the plans are as follows:

	December 31, 1994	December 31, 1993
Accumulated benefit obligation:		
Vested	$ 30,786	$ 32,869
Nonvested	1,702	1,892
Total	$ 32,488	$ 34,761
Projected benefit obligation	$ 38,704	$ 43,551
Plan assets at fair value, primarily equity and fixed income commingled funds	38,941	41,744
Plan assets in excess of (less than) projected benefit obligation	237	(1,807)
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in assumptions	(2,583)	948
Unrecognized prior service cost	1,510	533
Rate-regulated adjustment	59	(328)
Unrecognized net obligation	630	718
Prepaid (accrued) pension costs included in other current assets	$ (147)	$ 64

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

The accumulated and projected benefit obligations were calculated using the projected unit credit method, and reflect the following assumptions: discount rates of 8.5% for 1994, 7.00% for 1993 and 8.00% for 1992; increase in future compensation levels of 5.5% for 1994 and 1993, and 6.5% for 1992; and long-term rate of return on assets of 9% for 1994, and 10% for 1993 and 1992.

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.

In January 1993, the Company adopted SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". Under SFAS 106, the cost of PBOPs is recognized on an accrual basis as employees perform services for the Company. Prior to 1993, the costs for these benefits were recognized on a cash, or "pay-as-you-go" basis.

(In thousands of dollars, except per share amounts)

The difference between the PBOP costs computed under the requirements of SFAS 106 and the pay-as-you-go costs during the period from the adoption of SFAS 106 in January 1993 to June 1994 was deferred. During this period, $2,456 of PBOP costs, including $760 during 1994, were deferred as a regulatory asset in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation". The rate increase that was effective in June 1994 included recovery of the current PBOP costs computed under SFAS 106 as well as an amortization of the PBOP costs previously deferred.

	Years Ended December 31,	
	1994	1993
Benefits earned during the period	$ 359	$ 325
Interest cost	1,077	1,192
Amortization of APBO	743	743
Amortization of regulatory asset	74	-
Gross PBOP cost	2,253	2,260
Capitalized costs	(45)	-
Adjustment to recognize future rate recovery	(760)	(1,696)
Net PBOP cost	$1,448	$ 564

As of January 1, 1994, the Company's Accumulated Postretirement Benefit Obligation ("APBO") related to SFAS 106 was approximately $15,580. The APBO is calculated utilizing the following assumptions: discount rate of 8.5%; medical inflation rates of 12%, reducing to 5% in 1994 for those employees not eligible by December 31, 1993, and to 4.5% by 2002 for all others; and no return on plan assets. The effect of a 1% increase in the assumed medical inflation rates would be to increase the APBO and the 1994 PBOP costs by $893 and $182, respectively.

The Company has not begun funding its SFAS 106 liability but expects to do so in the second quarter of 1995.

Water Rates

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

In addition to its base rates, PSW has utilized a surcharge or credit on its bills to reflect certain changes in Pennsylvania State taxes until such time as the tax changes are incorporated into base rates. In July 1994, PSW was required to initiate a revenue credit of .19% in order to provide its customers with the savings associated with Pennsylvania tax rate decreases. In the period from August 1991 through June 1993, PSW was permitted to add a bill surcharge in order to recover costs associated with Pennsylvania tax rate increases. The credit decreased revenues in 1994 by $97, while the surcharge increased revenues in 1993 and 1992 by $706 and $2,281, respectively.

MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1994, 1993 and 1992 were prepared by management in accordance with generally accepted accounting principles and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

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

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

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is composed of three outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1994.

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income, and cash flows for each of the years in the three-year period ended December 31, 1994. 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, 1994 and 1993, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in the notes to the consolidated financial statements, the Company adopted in 1993 the provisions of Financial Accounting Standards Board Statements of Financial Accounting Standards No. 109, "Accounting for Income Taxes" and No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions".

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
February 7, 1995

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

(in thousands of dollars, except per share amounts)

General Information

Philadelphia Suburban Corporation ("PSC" or the "Company") is composed of two businesses, a regulated water utility (Philadelphia Suburban Water Company or "PSW"), and a non-regulated data processing service bureau (Utility & Municipal Services, Inc.). The service bureau operations are not significant to the financial results of the Company and, therefore, are not discussed separately.

In the first quarter of 1993, the Company completed the sale of the last of the five non-regulated businesses that the Board of Directors had previously authorized in late 1990 and early 1991. The results of operations of these businesses during the period they were owned by the Company are accounted for as discontinued operations. Unless otherwise noted, this discussion is limited to the continuing operations of the Company.

Results of Operations

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

Years ended December 31,	1994	1993	1992	1991	1990
Earned revenues	$108,636	$101,244	$93,307	$88,648	$82,267
Income from continuing operations before income taxes	$27,209	$24,261	$18,661	$17,260	$15,569

Operating Statistics					
Earned revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Operating expenses	46.3	45.4	46.1	48.1	51.2
Depreciation and amortization	9.5	10.8	10.1	9.3	9.6
Taxes other than income taxes	6.6	6.8	7.0	6.9	5.5
Interest and debt expenses*	12.7	13.8	17.1	17.5	17.4
Allowance for funds used during construction	(0.1)	(0.8)	(0.3)	(1.3)	(2.6)
Total costs and expenses	75.0	76.0	80.0	80.5	81.1
Income from continuing operations before income taxes	25.0%	24.0%	20.0%	19.5%	18.9%
Effective tax rates	42.5%	43.0%	43.1%	41.0%	37.5%
Income from continuing operations as a percentage of average common stockholders' equity	11.2%	11.4%	11.0%	11.9%	11.4%

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

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

Years ended December 31,		1994	1993	1992	1991	1990
Daily sendout (Million gallons per day)	Maximum	110.4	120.7	101.3	109.5	103.4
	Average	89.8	89.1	85.4	87.2	88.4
Metered customers	Residential	234,624	232,684	230,740	223,635	222,660
	Commercial	10,777	10,720	10,547	9,800	9,763
	Industrial	833	832	837	820	831
	Other	3,299	2,959	2,664	2,361	2,206
	Total	249,533	247,195	244,788	236,616	235,460
Consumption per customer in gallons	Average	109,001	110,368	108,258	110,978	110,281
Revenues from water sales	Residential	$ 69,483	$66,656	$60,239	$58,053	$53,702
	Commercial	22,998	20,112	19,235	18,031	16,712
	Industrial	5,170	4,601	4,500	4,126	4,083
	Other	9,151	8,092	7,577	6,856	6,205
	Total	$106,802	$99,461	$91,551	$87,066	$80,702

Income from continuing operations of the Company has grown at an annual compound rate of approximately 11% during the five-year period ended December 31, 1994. During this same period, revenues and total expenses, other than income taxes, have grown at compound rates of 7.4% and 5.9%, respectively.

Earned Revenues

Water revenues have accounted for approximately 98% of the Company's earned revenues from continuing operations during the five-year period covered above. The balance of the revenue from continuing operations is primarily associated with data processing services that have remained relatively constant.

The growth in water revenues over the past five years is primarily a result of increases in rates and, to a lesser extent, an increase in customer base. Revenues also increased in the past two years as a result of acquisitions of local water systems, which provided water revenues of approximately $2,480 and $2,052 in 1994 and 1993, respectively. Excluding the customers that were added at the time of these acquisitions, the customer base increased at a five-year annual compound rate of .6%. This increase represents normal expansion within PSW's 382 square mile service territory. Water rates have increased by 32% since 1990, reflecting an annual compound growth rate of 5.6% over the five-year period.

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

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

Over the past 10 years, PSW had applied for, and received the following base rate increases from the PUC:

Date filed	Effective date	Rate increase requested	Rate increase allowed	Return on equity requested	Return on equity allowed
July 1985	April 1986	16.9%	9.2%	16.0%	15.0%
October 1987	July 1988	12.2%	7.8%	14.5%	13.7%
April 1989	December 1989	13.2%	9.0%	14.1%	12.7%
March 1990	September 1990	9.7%	4.3%	13.5%	Settled
January 1991	October 1991	13.1%	7.7%	13.2%	12.0%
November 1992	June 1993	17.6%	7.4%	12.9%	Settled
December 1993	June 1994	14.0%	9.1%	11.9%	Settled

In addition to the base rate increases noted above, 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. In July 1994, rates decreased by .19% due to a reduction in Pennsylvania taxes. The effect of this adjustment was to reduce revenues by $97 in 1994. During the period from August 1991 to May 1993, various surcharges were in effect which increased revenues by $706 in 1993 and $2,281 in 1992.

Because the Pennsylvania legislature has enacted additional tax decreases for 1995, it is expected that rates will decrease by an additional .14% in March 1995.

"Sendout" represents the quantity of treated water delivered to the distribution system and is used by management as an indicator of customer demand. Consumption per customer is the sendout that was used by metered customers and is based on the actual bills rendered during the year adjusted for the estimated unbilled customer usage. Over the past five years, an average of approximately 82.1% of the sendout was consumed by metered customers. The majority of the balance was used through unmetered fixed-rate fire hydrants, lost through leaks in water mains or used by PSW in its operations. PSW's ratio of metered customer use to total sendout is consistent with industry statistics. The percentage of water consumed by metered customers was 82.5% in 1994, 83.3% in 1993 and 82.2% in 1992. Variations over the last three years are believed to be associated with the number of main breaks experienced, which is generally affected by the severity of the winter weather. Management believes that PSW's leak detection and water main rehabilitation programs, and an increase in the number of newer and more accurate meters have contributed to an overall improvement in this percentage.

Water consumption tends to be impacted by weather conditions, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. Except for 1992, the average annual consumption per customer over the past five years was relatively constant. The spring and summer of 1992 were characterized by cooler weather with frequent rains and consumption declined slightly. It is difficult to establish an exact correlation between the weather and water consumption, since conservation and even day-to-day variations in weather patterns can have an effect. Conservation efforts and mandated water use restrictions in response to drought conditions in years prior to 1990 have also had an effect on water consumption.

Operating Expenses
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Operating expenses for 1994, 1993 and 1992, totalled $50,296, $45,989 and $43,024, respectively. All elements of cost are subject to the effects of inflation, as well as the effects of changes in water consumption and the degree of treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption and raw water quality. Maintenance expenses are sensitive to extreme cold weather, which can cause water mains to rupture.

The Company's operating expenses increased in 1994 over 1993 by 9.4% primarily due to increased wages and employee benefits and additional expenses associated with the harsh winter conditions of 1994. The increase in employee benefits is primarily the result of the recognition of $895 of additional costs for postretirement benefits other than pensions computed under SFAS 106 that were recognized in conjunction with the June 1994 rate increase. The severe weather conditions in January and February 1994 caused significant maintenance problems, including an abnormally high number of water main breaks, and required additional treatment costs as raw water quality deteriorated during these months. The increase in operating expenses in 1993 over 1992 of 6.9% was primarily due to increased wages and employee benefit costs; operating expenses associated with the December 1992 acquisitions and the cost to process and distribute the increased volume of water sold.

Corporate costs related to continuing operations were less than 1% of the Company's operating expenses in 1994 and 1993 and were 2% in 1992. Such expenses include those unallocated general and administrative expenses associated with maintaining a publicly-held company.

Depreciation and Amortization
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Depreciation expense was $10,468, $9,927 and $8,646 in 1994, 1993 and 1992, respectively, and has increased principally as a result of the significant capital expenditures made to expand and improve the water utility facilities. Depreciation expense was approximately 2.3% of the average utility plant in service for all years. Amortization was a credit of $138 in 1994 as compared to charges of $1,008 and $800 in 1993 and 1992, respectively. The change in amortization in 1994 is due to the amortization of the acquisition adjustment associated with the December 1992 purchases of two water systems, which has been recognized retroactive to the acquisition date in conjunction with the June 1994 rate settlement. The increase in amortization in 1993 over 1992 was due to the frequency of rate request filings and a decrease in the time frame over which those costs are amortized.

Taxes Other than Income Taxes
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Taxes other than income taxes increased by 4% in 1994 and by 6% in 1993 over the previous year. The majority of the increase in both years was associated with increases in the bases on which the Pennsylvania Public Utility Realty Tax (PURTA) and the Capital Stock Tax are calculated. The increase in taxable base for the PURTA is due to the increases to utility plant over the past two years, including the December 1992 and 1993 acquisitions. The increase in the Capital Stock Tax is due to the common equity raised over the past three years.

Interest and Debt Expenses
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Interest and debt expense was $12,896, $13,108 and $15,068 in 1994, 1993 and 1992, respectively, and has decreased due to reductions in the average debt outstanding and the refinancing of certain First Mortgage Bonds at PSW with lower-cost debt. The Company was able to reduce its average outstanding debt in 1994 and 1993 with the proceeds it received from the issuance of common stock; the sale of its discontinued operations and by improved operating cash flows.

Allowance for Funds Used During Construction
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The allowance for funds used during construction ("AFUDC") was $126, $805 and $258 in 1994, 1993 and 1992, 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 $2,820, $8,379 and $3,197 in 1994, 1993 and 1992, respectively. The variances in these average balances are primarily due to an $11,500 treatment plant placed in service in November 1993. AFUDC was no longer applied to this project after it was placed in service, but was applied to an ever-increasing base during the period it was under construction.

The AFUDC rate has also declined as the Company is required to use a rate equal to the average costs of borrowings under its revolving credit facility while the balance in CWIP is less than the borrowing level under this facility. The average cost of capital (i.e., the weighted costs of long-term debt, preferred stock and common equity) is used as the AFUDC rate for the amount the CWIP balance exceeds the balance of the revolving credit facility. In prior periods, the average cost of capital was used as the AFUDC rate. As a result, the average AFUDC rate decreased in 1994 to 4.6% from 9.1% in 1993 and 8.1% in 1992.

Income Taxes

The Company's effective income tax rate was 42.5% in 1994 as compared to 43.0% in 1993 and 43.1% in 1992. The decline in the effective tax rate in 1994 was primarily due to a .3% reduction in the Pennsylvania Corporate Net Income Tax rate. The effective tax rate declined in 1993, despite a 1% increase in the statutory federal tax rate, due to a reduction of operating expenses at the parent company which are not deductible for state income taxes.

Discontinued Operations

As a result of deterioration in the operating results and backlog of future work at the discontinued operations during 1992, and a substantial reduction in the estimated net proceeds from the ultimate disposition of the businesses, a charge of $5,500 was taken in 1992 to reflect the Company's revised estimate of the ultimate loss on the disposition of these businesses. The charge in 1992 along with a similar charge in 1991 was based on estimates, which considered the facts and circumstances known at the time the charges were taken, including projections of operating results through the expected disposition dates and estimates of the net proceeds from the dispositions. The net proceeds from the disposition of the two businesses sold in the first quarter of 1993, and the operating losses during the period they were owned by the Company were within the estimated reserves established in 1992 and the Company does not foresee the need for any further charges to income related to the discontinued operations. The balance of the reserves for discontinued operations of $2,701 at December 31, 1994 consists primarily of reserves for future and contingent costs including potential lease, legal and insurance costs associated with these businesses.

Summary

Operating income from continuing operations in 1994, 1993 and 1992 was $40,845, $37,430 and $34,337, respectively, and income from continuing operations was $15,638, $13,835 and $10,626, respectively, for the same periods. Net income was equal to income from continuing operations in 1994 and 1993 and was $6,334 less in 1992 due to a $5,500 charge related to the discontinued operations and a $834 extraordinary charge for early retirement of debt. On a per share basis, income from continuing operations in 1994, 1993 and 1992 was $1.35, $1.27 and $1.23, respectively. The increases in the per share income from continuing operations in 1994 and 1993 over the previous year were due to the aforementioned improvements in profits offset in part by a 6.5% and 25.7% increase in the average number of shares outstanding during 1994 and 1993, respectively.

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

Fourth Quarter Results

Income from continuing operations for the fourth quarter of 1994 increased by $370 to $3,757 primarily as a result of a $2,686 increase in revenues. The increase in revenues is a result of the 9.05% rate increase which took effect in June 1994. The increase in revenues was partially offset by higher operating expenses, interest and debt expenses, income taxes, depreciation and taxes other than income taxes. Operating expense increases are attributable to wage increases, insurance costs and employee benefits, including the additional SFAS 106 costs of $410. Depreciation increased due to utility plant additions made since the fourth quarter of 1993. Taxes other than income taxes increased primarily because of the increase in the base on which the PURTA and Capital Stock Tax are computed. Interest increased in the fourth quarter primarily as a result of higher interest rates, particularly for borrowings under the revolving credit facility.

Effects of Inflation

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

Regulatory Asset

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

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

Income tax expense recognized in the rate making process has generally been limited to current tax expense plus deferred Federal taxes as they related to certain depreciable assets. The PUC has generally not recognized deferred income tax expenses related to any state tax or on other differences between book and taxable income. As a result, tax expense for rate making purposes has been reduced resulting in effective tax rates which have been lower than they would have been had financial accounting standards been used in establishing rates. Management believes that the PUC will continue to follow its practice of allowing rate recovery of current taxes and, accordingly, recovery of the additional taxes included in the regulatory asset will occur as the temporary differences reverse.

Financial Condition

Cash Flow and Capital Expenditures

Net operating cash flow, dividends and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1994 are as follows:

	Net operating cash flow	Dividends	Capital expenditures
1990	$ 16,897	$ 7,641	$ 30,774
1991	19,121	7,859	22,335
1992	22,638	8,866	21,719
1993	26,940	11,629	27,958
1994	29,107	12,637	27,379
	$114,703	$48,632	$130,165

Of the $130,165 in capital expenditures made in the past five years, $129,874 results from PSW's construction program. Included in PSW construction expenditures are: $27,100 for the construction of two surface water treatment plants; $17,075 for new water mains; $26,420 for the rehabilitation of existing water mains and $20,390 for water meters. During this five year period, PSW received $14,103 of advances and contributions in aid of construction to finance new water mains. In addition to its capital program, PSW has made sinking fund contributions aggregating $5,550, replaced $41,015 of debt and has refunded $11,480 of customer advances for construction over the past five years. PSW has also expended $11,063 related to the acquisition of five water systems since December 1992.

Since net operating cash flow to PSW plus advances and contributions in aid of construction have not been sufficient to fully fund its cash requirements, PSW issued approximately $48,777 of long-term debt during the past five years, $10,000 of preferred stock in 1991 and received $29,000 of equity investments from the Company during 1993.

The Company funded its investment in PSW with the proceeds from the sale of common stock and the sale of its discontinued operations. In April 1993, the Company sold 1,100,000 shares of common stock in a public offering for net proceeds of $18,331. The Company has also sold 2,997,668 shares of common stock for net proceeds of $45,194 since 1990 through three programs that allow existing shareholders and customers of PSW to purchase shares of common stock directly from the Company. The following table provides the net proceeds to the Company and the shares issued under these programs:

	Customer Stock Purchase Program	Dividend Reinvestment Program	Optional Stock Purchase Program	Total
Net proceeds:				
1990	$ 2,431	$ 435	$ 90	$ 2,956
1991	2,651	494	172	3,317
1992	24,185	742	264	25,191
1993	5,465	1,491	583	7,539
1994	3,541	2,047	603	6,191
	$38,273	$5,209	$1,712	$45,194
Shares issued:				
1990	205,600	36,114	7,155	248,869
1991	193,775	37,247	11,997	243,019
1992	1,669,159	51,143	17,159	1,737,461
1993	298,940	86,704	31,857	417,501
1994	200,690	117,020	33,108	350,818
	2,568,164	328,228	101,276	2,997,668

Proceeds from the customer stock purchase program increased dramatically in 1992 and, in order to better match future equity additions with the need for additional capital, the Company amended this program in 1993 to eliminate the 5% discount it previously offered to customers and limited future stock sales under this program to approximately 100,000 shares in each of the three subscription periods during the year. The dividend reinvestment program ("DRP") continues to offer a 5% discount on the purchase of Company Stock with reinvested dividends. As of the December 1994 dividend payment, holders of 16% of the common shares outstanding participated in the DRP.

PSW's 1995 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be $27,500, which is expected to be financed, along with $850 of sinking fund obligations and $2,857 of preferred stock redemptions through internally-generated funds, the revolving credit facility, equity investments from the Company, and issuance of new long-term debt. PSW has also entered into an agreement to acquire the water utility assets of Media Borough for approximately $24,500. PSW has also entered into preliminary agreements to acquire six other water systems for a combined purchase price of approximately $7,300, including, subject to final negotiations, the issuance of up to $5,000 of the Company's preferred stock. In addition, PSW continues to hold discussions with several other water systems that are near or adjacent to PSW's service territories. The cash needed for these acquisitions would be funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or equity.

Future utility construction in the period 1996 through 1999, 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 $110,000. The Company anticipates that approximately 50% of these expenditures will require external financing. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

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

Operating cash flow from PSW, along with external financings, will enable the Company to pursue its capital expenditure programs, pay dividends and supply the working capital required by the Company in 1995. Management believes that with the improvement in the Company's capitalization ratios over the past three years, it will be able to obtain the external financing that it will need.

Capitalization

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

December 31,	1994	1993	1992	1991	1990
Long-term debt*	49.9%	50.7%	58.1%	64.4%	68.6%
Preferred stock with mandatory redemption*	3.3	3.4	3.6	3.7	-
Common stockholders' equity	46.8	45.9	38.3	31.9	31.4
	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, preferred stock in 1991, the retirement of parent company debt in 1992 and 1991 and the issuance of debt by PSW to finance its capital program.

Dividends on Common Stock

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

	Cash dividend per share	Income per share from continuing operations	Payout ratio
1990	$ 1.00	$ 1.27	79%
1991	1.00	1.29	78
1992	1.04	1.23	85
1993	1.07	1.27	84
1994	1.10	1.35	81

Dividends have averaged approximately 81% of income from continuing operations during this period. In May 1994, the annual dividend increased by 3.7% to $1.12 beginning with the September 1994 dividend.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

	First	Second	Third	Fourth	Total Year
			1994		
Earned revenues	$24,849	$26,730	$28,849	$28,208	$108,636
Operating expenses	12,056	12,001	12,511	13,728	50,296
Net income	2,949	4,035	4,897	3,757	15,638
Net income per share	.26	.35	.42	.32	1.35
Dividend paid per share	.27	.27	.28	.28	1.10
Price range of common stock					
- high	19.63	18.50	19.38	18.75	19.63
- low	17.38	17.13	17.50	17.25	17.13

			1993		
Earned revenues	$22,726	$25,048	$27,948	$25,522	$101,244
Operating expenses	10,733	11,205	12,078	11,973	45,989
Net income	2,587	3,604	4,257	3,387	13,835
Net income per share	.26	.33	.38	.30	1.27
Dividend paid per share	.26	.27	.27	.27	1.07
Price range of common stock					
- high	18.25	18.38	20.75	20.13	20.75
- low	15.63	17.25	18.13	17.75	15.63

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

Philadelphia Suburban Corporation and Subsidiaries

Summary of Selected Financial Data

(in thousands of dollars, except per share amounts)

Years ended December 31,	1994	1993	1992	1991	1990
PER COMMON SHARE:					
Income from continuing operations (a)	$1.35	$1.27	$1.23	$1.29	$1.27
Net income	1.35	1.27	0.50	0.62	0.53
Cash dividends	1.10	1.07	1.04	1.00	1.00
Return on average shareholders' equity (b)	11%	11%	11%	12%	11%
Book value at year end	$12.27	$11.89	$10.88	$10.66	$10.95
Market value at year end	18.13	18.38	16.00	15.75	12.13
INCOME STATEMENT HIGHLIGHTS:					
Earned revenues (b)	$108,636	$101,244	$93,307	$88,648	$82,267
Depreciation and amortization (b)	10,330	10,935	9,446	8,253	7,900
Interest and debt expenses (b) (c)	13,636	13,169	15,676	14,377	12,174
Income before income taxes (b)	27,209	24,261	18,661	17,260	15,569
Provision for income taxes (b)	11,571	10,426	8,035	7,081	5,833
Income from continuing operations (a)	15,638	13,835	10,626	10,179	9,736
Net income	15,638	13,835	4,292	4,889	4,089
BALANCE SHEET HIGHLIGHTS:					
Total assets	$458,183	$439,679	$365,949	$350,560	$352,037
Property, plant and equipment, net (b)	385,709	366,230	345,610	320,974	306,702
Common stockholders' equity	143,795	135,934	106,971	85,621	85,456
Preferred stock with mandatory redemption (d)	10,000	10,000	10,000	10,000	-
Long-term debt (d)	153,082	150,176	162,089	172,626	186,755
Total debt	157,132	150,995	163,048	172,786	187,755
ADDITIONAL INFORMATION:					
Net cash flows from operating activities (b)	$29,107	$26,940	$22,638	$19,121	$16,897
Capital additions (b) (e)	27,379	27,958	21,719	22,335	30,774
Dividends on common stock	12,637	11,629	8,866	7,859	7,641
Number of metered water customers	249,533	247,195	244,788	236,616	235,460
Number of shareholders of common stock	11,243	10,811	9,863	6,408	6,373
Common shares outstanding (000)	11,718	11,430	9,832	8,034	7,804
Employees (full-time) (b)	525	523	526	526	523

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

Exhibit 22

(unaudited)

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists all of the subsidiaries of the Company at December 31, 1994:

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

Exhibit 24

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Philadelphia Suburban Corporation

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Equity Compensation Plan No. 033-53689), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option No.33-27032), (1982 Stock Option Plan No.2-81757); on Form S-3D (Dividend Reinvestment and Optional Stock Purchase Plan) (No. 33-54943); and on Form S-3 (Customer Stock Purchase Plan) (No. 33- 54941) of Philadelphia Suburban Corporation of our report dated February 7, 1995, related to the consolidated balance sheets of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1994 and 1993 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1994, which report is incorporated by reference in the December 31, 1994 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania
March 13, 1995

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