

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1996

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  
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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  No

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 3, 1997. \$328,672,705

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 3, 1997, that it has sole or shared voting power of 5% or more of the outstanding common stock of registrant.

The number of shares outstanding of each of the registrant's classes of common stock as of March 3, 1997. 19,242,350

Documents incorporated by reference

(1) Portions of registrant's 1996 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 15, 1997 annual meeting of shareholders of registrant, to be filed within 120 days after the end of the fiscal year covered by this Form 10-K Report, have been incorporated by reference into Part III of this Form 10-K Report.

#### PART I

##### Item 1. Business

Philadelphia Suburban Corporation ("PSC" or the "Registrant"), a Pennsylvania corporation, was incorporated in 1968. The information appearing in "Management's Discussion and Analysis" from the portions of PSC's 1996 Annual Report to Shareholders filed as Exhibit 13.4 to this Form 10-K Report is incorporated by reference herein.

The business of PSC is conducted almost entirely through its subsidiary Philadelphia Suburban Water Company ("PSW"), a regulated public utility. PSW supplies water to 284,141 residential, commercial, industrial and public customers. PSW's service territory is approximately 463 square miles, comprising a large portion of the suburban area west and north of the City of Philadelphia. This territory is primarily residential in nature and is completely metered for water service, except for fire hydrant service. Based on the 1990 census, PSW estimates that the total number of persons currently served is approximately 900,000. 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 .9% per annum for the last three years.

Operating revenues during the twelve months ended December 31, 1996 were derived approximately as follows:

65.7%	from residential customers
22.0%	from commercial customers
4.0%	from industrial customers
1.1%	from public customers
6.8%	from fire protection services
0.4%	from sales to other water utilities and miscellaneous customers
-----	
100.0%	
=====	

In October 1996, PSW purchased the franchise rights and the water utility assets of Hatboro Borough Authority. The Hatboro system covers a one and one-half square mile service area in Montgomery County and is contiguous to PSW's service territory. In November 1996, PSW acquired the water systems of the Utility Group Services Corporation ("UGS") in a purchase transaction. The UGS system consisted of three water utilities, with a 49 square mile service territory, and one wastewater utility with a one square mile territory, all in Chester County and in close proximity to PSW's existing territory. On December 31, 1996, PSW purchased the franchise rights and the water utility assets of Bristol Borough Water and Sewer Authority serving the entire Borough and parts of Bensalem and Bristol Townships in Bucks County. The Bristol system covers a 12 square mile service area in close proximity to PSW's existing territory. In addition, PSW purchased the franchise rights and the water utility assets of three smaller water systems during 1996 with a combined service territory of one and one-half square miles. PSW continues to hold acquisition discussions with several water systems that are near or adjacent to it's service territory.

The total purchase price for the eight water systems and wastewater system acquired in 1996 was \$47,889,000, including the issuance of \$3,220,000 of PSC's preferred stock and the assumption of \$2,547,000 in liabilities. The annual revenues from these systems approximates \$6,000,000, and revenues included in the consolidated financial statements during the period owned by PSW were \$466,000.

PSW has completed 18 water system acquisitions and one wastewater system acquisition in the last five years. In May 1995, PSW purchased the franchise rights and the water utility assets of Media Borough ("Media"). In addition, PSW purchased the franchise rights and the water utility assets of four smaller water systems in 1995. In December 1994, PSW acquired the franchise rights and the water utility assets of two privately owned water companies. In December 1993, PSW acquired the water utility assets and franchise rights of the

Borough of Malvern. In December 1992, PSW acquired the water utility assets of the West Whiteland Township and the Uwchlan Township Municipal Authority water systems. Combined, the ten systems acquired before 1996 added 70 square miles of service territory adjacent to or in close proximity to PSW's existing service territory and had revenues of approximately \$7,750,000 in 1996.

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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)	1996	1995	1994
Residential	\$ 79,056	\$ 78,082	\$ 69,545
Commercial	26,504	24,473	23,453
Industrial	4,823	4,533	4,742
Public	1,373	1,252	1,257
Fire protection	8,140	7,421	7,054
Other	438	617	848
Tax Surcharge (credit)	(1)	(505)	(97)
<b>Total</b>	<b>\$ 120,333</b>	<b>\$ 115,873</b>	<b>\$ 106,802</b>

Water sales (million gallons)	1996	1995	1994
Residential	17,228	17,610	16,577
Commercial	8,236	7,983	7,804
Industrial	1,768	1,919	2,085
Public	354	335	324
Fire protection - metered	84	51	55
Other	25	124	261
<b>Total</b>	<b>27,695</b>	<b>28,022</b>	<b>27,106</b>

System delivery by source (million gallons)	1996	1995	1994
Surface (including Upper Merion reservoir)	27,287	26,904	25,386
Wells	5,136	4,830	5,037
Purchased	2,046	2,077	2,356
<b>Total</b>	<b>34,469</b>	<b>33,811</b>	<b>32,779</b>

Number of metered customers (end of year)	1996	1995	1994
Residential	265,765	248,500	234,624
Commercial	13,449	12,019	11,071
Industrial	753	554	539
Public	785	775	688
Fire protection	3,378	3,006	2,596
Other	11	11	15
<b>Total</b>	<b>284,141</b>	<b>264,865</b>	<b>249,533</b>

Average consumption per customer in gallons	1996	1995	1994
	103,206	109,084	109,001

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Item 1, Continued

Water supplies and usage. PSW derives its principal supply of water from the Schuylkill River, Delaware River, seven rural streams which are tributaries of the Schuylkill and Delaware Rivers, and the Upper Merion Reservoir, a former quarry now impounding groundwater. All of these are either within or adjacent to

PSW's service territory. PSW acquired the right to remove water from these sources, and in connection with such rights, PSW has secured the necessary regulatory approvals. PSW has five impounding reservoirs and has six treatment and pumping facilities to provide storage and purification of these surface water supplies.

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

PSW's surface supplies are supplemented by 60 wells. PSW also has interconnections with: the Chester Water Authority, which permits PSW to withdraw up to 6.4 million gallons per day ("mgd"); the Bucks County Water and Sewer Authority, which provides for a supply of up to 7.0 mgd; and the West Chester Area Municipal Authority, which provides up to 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	104.8 mgd
Upper Merion Reservoir	7.2
Wells	22.3
Purchased supplies	8.2
	-----
Total	142.5 mgd
	=====

During periods of normal precipitation, the safe yield is more than the minimum shown above. Under normal operating conditions, PSW can deliver a maximum of 162 mgd to its distribution system for short periods of time. The average daily sendout for 1996, 1995 and 1994 was 94.2, 92.6 and 89.8 mgd, respectively.

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

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

Energy supplies. PSW does all of its pumping using electric power 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, particularly during the summer months. To the extent that the reservoirs in the upper part of the Basin are affected by a lack of precipitation, the Delaware River Basin Commission (the "DRBC") may impose either voluntary or mandatory water use restrictions on portions or all of the Basin. The Commonwealth of Pennsylvania (the "Commonwealth") also has the authority to impose similar restrictions on a county-by-county basis.

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

emergency in the counties served by PSW. The drought emergency imposed a mandatory ban on all nonessential water usage by PSW's customers. Because the order was issued toward the end of the summer months, when nonessential and recreational use of water has traditionally declined, the restriction did not have a significant impact on PSW revenues. The drought emergency was lifted by the end of 1995. Throughout the drought emergency, PSW maintained adequate storage levels of treated water and had sufficient quantities of raw water. No other drought restrictions were imposed by the Commonwealth or DRBC in 1996 or in the five years preceding 1995.

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

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

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

In August 1996, the PUC approved the Company's request for a "Distribution System Improvement Charge" or "DSIC". The DSIC will enable PSW to add a surcharge to customer bills beginning January 1, 1997 reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service during the period September 1 through November 30, 1996. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and the surcharge is reset to zero when new base rates that reflect the costs of those additions become effective. The maximum DSIC that can be in effect at any time is 5%. The initial charge effective January 1, 1997 is .5% (one half of one percent).

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

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

On August 6, 1996, the President signed into law the reauthorization of the SDWA. The new Act places a greater emphasis on the cost/benefit of regulating additional substances, by requiring definitive research on the impact of such regulations. The reauthorized SDWA focuses regulations on contaminants known to be of public health concern based on occurrence, health risks and cost benefit considerations. The new Act eliminated the previous requirement of the 1986 SDWA Amendments that had required the EPA to promulgate MCLs for many chemicals not previously regulated and mandated further MCLs every three years. The new Act also specifies that the EPA shall study radon, arsenic and sulfates and propose respective rulemakings in 1999, 2000 and 2001 if these chemicals are deemed to be a threat to public health. The reauthorized SDWA is not expected to have a material impact on PSW's operations or financial condition. PSW may, in the future, have to change its method of treating drinking water at certain of its sources of supply if additional regulations become effective.

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

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

In May 1996, the EPA issued the first rule of a three rule package addressing Disinfection By-Products ("DBP") and monitoring of disease-causing micro-organisms. DBP's are chemicals formed during the drinking water purification process. The first rule is an Information Collection Rule ("ICR") designed to collect data to be used in developing further rules. The start of the ICR has been postponed until mid-1997 and will also include studies of advanced treatment techniques. The ICR phase is expected to be completed by December 1998. Studies on the data collected may result in new treatment standards and processes.

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

Under RCRA, PSW is subject to specific regulations regarding the solid waste generated from the water treatment process. The DEP promulgated a "Final Rulemaking" for solid waste (Residual Waste Management) in July 1992. PSW has retained engineering consultants to assist with the extensive monitoring, record keeping and reporting required under these regulations. A preliminary application for permitting has been filed, and formal permitting of these facilities should be issued in 1997 in accordance with regulatory requirements.

In 1996, PSW acquired the Little Washington Wastewater Company ("LWW"), a 317 customer wastewater system located within the service territory of PSW. LWW is subject to regulation by the EPA and DEP, and is also subject to environmental statutes, including FCWA and RCRA. LWW currently maintains a NPDES permit for its wastewater treatment station in accordance with FCWA. LWW is presently in compliance with all standards and treatment requirements promulgated to date.

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

Employee Relations

As of December 31, 1996, the Registrant employed a total of 540 persons. Hourly employees of PSW are represented by the International Brotherhood of Firemen and Oilers, Local No. 473. The contract with the union expires on December 1, 1997. Management considers its employee relations to be satisfactory.

Item 2. Properties.

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

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

Location	No. of Buildings	Description	Square Feet Floor Area
Pennsylvania	6	Office & warehouse	174,185
Pennsylvania	17	Pumping stations and treatment buildings	180,000
Pennsylvania	23	Well stations	App. 600 ea.
Pennsylvania	37	Well stations	App. 150 ea.
Pennsylvania	49	Booster stations	App. 1,100 ea.

In addition, PSW also owns 66 storage facilities for treated water throughout its service territory with a combined capacity of 160.25 million gallons and five surface water impounding reservoirs. The water utility also owns approximately 3,437 miles of transmission and distribution mains, has 284,141 active metered services and 13,322 fire hydrants.

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

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

Item 3. Legal Proceedings

There are various legal proceedings in which the Company is involved. Although the results of legal proceedings cannot be predicted with certainty, there are no pending legal proceedings to which the Registrant or any of its subsidiaries is a party or to which any of their properties is the subject that present a reasonable likelihood of a material adverse impact on the Registrant.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1996.

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

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 3, 1997, there were approximately 13,799 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	Second	Third	Fourth	Total Year
-----					
1996					
-----					
Earned revenues	\$ 29,290	\$ 30,683	\$ 30,831	\$ 31,699	\$ 122,503
Operating expenses	13,070	12,614	11,757	14,174	51,615
Income, continuing operations	3,968	5,281	5,847	4,661	19,757
Income per share, continuing operations	0.21	0.28	0.31	0.24	1.04
Income, discontinued operations	-	-	365	600	965
Income per share, discontinued operations	-	-	0.02	0.03	0.05
Net income available to common stock	3,968	5,281	6,212	5,261	20,722
Net income per common share	0.21	0.28	0.33	0.27	1.09
Dividend paid per common share	0.193	0.193	0.2025	0.2025	0.791
Price range of common stock					
- high	15.42	16.75	17.25	19.88	19.88
- low	13.67	15.00	15.50	16.50	13.67
-----					
1995					
-----					
Earned revenues	\$ 25,712	\$ 28,827	\$ 32,355	\$ 30,150	\$ 117,044
Operating expenses	11,766	12,357	13,793	13,786	51,702
Income, continuing operations	3,315	4,659	5,732	4,324	18,030
Income per share, continuing operations	0.19	0.26	0.32	0.23	1.00
Income, discontinued operations	-	-	-	370	370
Income per share, discontinued operations	-	-	-	0.02	0.02
Net income available to common stock	3,315	4,659	5,732	4,694	18,400
Net income per common share	0.19	0.26	0.32	0.25	1.02
Dividend paid per common share	0.186	0.186	0.193	0.193	0.758
Price range of common stock					
- high	12.17	12.50	12.42	14.33	14.33
- low	11.59	11.75	11.75	12.00	11.59

All per share data as presented has been adjusted for the 1996 common stock split effected in the form of a stock distribution. High and low prices of the Company's common stock are as traded on the New York Stock Exchange.

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Item 5, Continued

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

	Cash dividend per common share	Income per share from continuing operations	Payout ratio
-----			
1992	\$ 0.69	\$ 0.82	84%
1993	0.71	0.85	84%
1994	0.73	0.90	81%
1995	0.76	1.00	76%
1996	0.79	1.04	76%
-----			

Dividends have averaged approximately 80% of income from continuing



operations during this period. In August 1996, the annual dividend increased by 4.7% to \$.81 beginning with the September 1996 dividend.

#### Recent Sales of Unregistered Securities

On November 22, 1996, the Company sold 32,200 shares of its Series B Preferred Stock for an aggregate amount of approximately \$3,220,000. Such shares were issued to the owners of a business acquired by the Company for an aggregate price of \$45,342,000, the balance of which was paid by the Company in cash. Such shares were sold by the Company to accredited investors without registration under the Securities Act of 1933, as amended, pursuant to Rule 506 promulgated under such Rule.

#### Item 6. Selected Financial Data

The information appearing in the section captioned "Summary of Selected Financial Data" from the portions of the Company's 1996 Annual Report to Shareholders filed as Exhibit 13.4 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 1996 Annual Report to Shareholders filed as Exhibit 13.4 to this Form 10-K Report is incorporated by reference herein.

#### Item 8. Financial Statements and Supplementary Data

Information appearing under the captions "Consolidated Statements of Income", "Consolidated Balance Sheets", "Consolidated Cash Flow Statements" "Consolidated Statements of Capitalization" and "Notes to Consolidated Financial Statements" from the portions of the Company's 1996 Annual Report to Shareholders filed as Exhibit 13.4 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 1996 Annual Report to Shareholders filed as Exhibit 13.4 to this Form 10-K Report is incorporated by reference herein.

#### Item 9. Disagreements on Accounting and Financial Disclosure

None.

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### 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 15, 1997, 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	51	President and Chairman (May 1993 to present); President and Chief Executive Officer (July 1992 to May 1993); Chairman and Chief Executive Officer, Philadelphia Suburban Water Company (July 1992 to Present); President, Philadelphia Suburban Water Company (February 1995 to present) (2)
Richard R. Riegler	50	Senior Vice President - Operations, Philadelphia Suburban Water Company (April 1989 to present) (3)
Roy H. Stahl	44	Senior Vice President and General Counsel (April 1991 to

present) (4)

Michael P. Graham	48	Senior Vice President - Finance and Treasurer (March 1993 to present) (5)
Morrison Coulter	60	Senior Vice President - Production, Philadelphia Suburban Water Company (February 1996 to present); Vice President - Production, Philadelphia Suburban Water Company (April 1989 to February 1996) (6)

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

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

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

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

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#### Item 10, Continued

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

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

#### Item 11. Management Remuneration

The information appearing in the sections captioned "Compensation of Directors and Executive Officers" of the Proxy Statement relating to the May 15, 1997, 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 15, 1997, 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 15, 1997, 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, 1996 and 1995

Consolidated Statements of Income - 1996, 1995 and 1994

Consolidated Statements of Cash Flow - 1996, 1995, and 1994

Consolidated Statements of Capitalization - December 31, 1996 and 1995

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, 1996.

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.

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EXHIBIT INDEX

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3.1	Amended and Restated Articles of Incorporation, as amended (1) (Exhibit 3.1)	-
3.2	By-Laws, as amended (1) (Exhibit 3.2)	-
3.3	Amendment to Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares to 41,770,819 and to provide that 40,000,000 of such shares be shares of Common Stock	19
3.4	Amendment to Amended and Restated Articles of Incorporation, as amended, designating the Series B Preferred Stock	20
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 INDEX, Continued

Exhibit No.		Page No.
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4.13	Twenty-sixth Supplemental Indenture dated as of November 1, 1991 (11) (Exhibit 4.12)	-
4.14	Twenty-seventh Supplemental Indenture dated as of June 1, 1992 (1) (Exhibit 4.14)	-
4.15	Twenty-eighth Supplemental Indenture dated as of April 1, 1993 (12) (Exhibit 4.15)	-
4.16	Revolving Credit Agreement between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A. and CoreStates Bank, N.A. dated as of March 17, 1994 (12) (Exhibit 4.16)	-
4.17	Twenty-Ninth Supplemental Indenture dated as of March 30, 1995 (14) (Exhibit 4.17)	-
4.18	Thirtieth Supplemental Indenture dated as of August 15, 1995 (15) (Exhibit 4.18)	-
4.19	First Amendment to Revolving Credit Agreement dated as of May 22, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A. Meridian Bank, N.A. dated as of March 17, 1994	27
4.20	Second Amendment to Revolving Credit Agreement dated as of July 21, 1995, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Fidelity National Bank, N.A. Bank, N.A. dated as of March 17, 1994	43
4.21	Third Amendment to Revolving Credit Agreement dated as of December 20, 1996, between Philadelphia Suburban Water Company and Mellon Bank, N.A., PNC Bank National Association, First Union National Bank, N.A. CoreStates Bank, N.A. dated as of March 17, 1994	55
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)	-

EXHIBIT INDEX, Continued

Exhibit No. -----		Page No. -----
10.10	1994 Equity Compensation Plan, as amended by Amendment 1994-1* (16) (Exhibit 10.10)	-
10.11	1995 Incentive Compensation Plan* (13) (Exhibit 10.11)	-
10.12	Placement Agency Agreement between Philadelphia Suburban Water Company and PaineWebber Incorporated dated as of March 30, 1995 (14) (Exhibit 10.12)	-
10.13	Bond Purchase Agreement among the Delaware County Industrial Development Authority, Philadelphia Suburban Water Company and Legg Mason Wood Walker, Incorporated dated August 24, 1995 (15) (Exhibit 10.13)	-
10.14	Construction and Financing Agreement between the Delaware County Industrial Development Authority and Philadelphia Suburban Water Company dated as of August 15, 1995 (15) (Exhibit 10.14)	-
10.15	1996 Annual Cash Incentive Compensation Plan* (16) (Exhibit 13.4)	-
10.16	Amendment 1994-2 to 1994 Equity Compensation Plan, as amended*	71
10.17	1997 Annual Cash Incentive Compensation Plan*	72
10.18	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Nicholas DeBenedictis, dated as of January 1, 1997*	78
10.19	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Roy H. Stahl, dated as of January 1, 1997*	97
10.20	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Michael P. Graham, dated as of January 1, 1997*	113
10.21	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Richard R. Riegler, dated as of January 1, 1997*	129
10.22	Agreement among Philadelphia Suburban Corporation, Philadelphia Suburban Water Company and Morrison Coulter, dated as of January 1, 1997*	145
10.23	Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan*	161
10.24	Philadelphia Suburban Corporation Deferred Compensation Plan Master Trust Agreement with PNC Bank, National Association, dated as of December 31, 1996*	170

EXHIBIT INDEX, Continued

Exhibit No.		Page No.
- - - - -		- - - - -
13.1	Selected portions of Annual Report to Shareholders for the year ended December 31, 1993 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1993 (12) (Exhibit 13.1)	-
13.2	Selected portions of Annual Report to Shareholders for the year ended December 31, 1994 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1994 (13) (Exhibit 13.2)	-
13.3	Selected portions of Annual Report to Shareholders for the year ended December 31, 1995 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1995 (16) (Exhibit 13.3)	-
13.4	Selected portions of Annual Report to Shareholders for the year ended December 31, 1996 incorporated by reference in Annual Report on Form 10-K for the year ended December 31, 1996	187
21.	Subsidiaries of Philadelphia Suburban Corporation	222
23.	Consent of Independent Auditors	223
24.	Power of Attorney (set forth as a part of this report)	17
27.	Financial Data Schedule	224

- Notes -

Documents Incorporated by Reference

- (1) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1992
- (2) Indenture of Mortgage dated as of January 1, 1941 with supplements thereto through the Twentieth Supplemental Indenture dated as of August 1, 1983 were filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1983.
- (3) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1990.
- (4) Filed as Exhibit 4 to the Registration Statement on Form S-3 filed with the Securities and Exchange Commission on June 14, 1988.
- (5) Filed as Exhibit 1 to the Registration Statement on Form 8-A filed with the Securities and Exchange Commission on March 1, 1988, with respect to the New York Stock Exchange, and on November 9, 1988, with respect to the Philadelphia Stock Exchange.
- (6) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1985.
- (7) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1986.
- (8) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1987.

- (9) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1988.
- (10) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1989.
- (11) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1991.
- (12) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1993.
- (13) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1994.
- (14) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended March 31, 1995.
- (15) Filed as an Exhibit to Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.
- (16) Filed as an Exhibit to Annual Report on Form 10-K for the year ended December 31, 1995.

\* 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 24, 1997

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

-----  
 John W. Boyer, Jr.  
 -----  
 John W. Boyer, Jr.  
 Director  
 -----  
 Nicholas DeBenedictis  
 -----  
 Nicholas DeBenedictis  
 President and Chairman  
 (principal executive officer)  
 and Director

G. Fred DiBona, Jr.

Richard H. Glanton

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

-----  
Richard H. Glanton  
Director

Michael P. Graham

Joseph C. Ladd

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

-----  
Joseph C. Ladd  
Director

John F. McCaughan

Harvey J. Wilson

-----  
John F. McCaughan  
Director

-----  
Harvey J. Wilson  
Director



PHILADELPHIA SUBURBAN CORPORATION  
PROPOSED RESOLUTION TO INCREASE THE CORPORATION'S  
AUTHORIZED SHARES OF COMMON STOCK

---

RESOLVED, that the Corporation's Amended and Restated Articles of Incorporation, be, subject to the requisite shareholder approval, amended to increase the number of authorized shares which the Company is authorized to issue to 41,770,819 and to provide 40,000,000 of such shares shall be shares of Common Stock (the "Amendment").

FURTHER RESOLVED, that the Board of Directors of the Corporation hereby finds and declares that the adoption of the Amendment is in the best interests of the Corporation.

FURTHER RESOLVED, that the Amendment be submitted to the shareholders of the Corporation for their approval.

STATEMENT OF DESIGNATION  
SERIES B PREFERRED STOCK  
OF  
PHILADELPHIA SUBURBAN CORPORATION

Philadelphia Suburban Corporation, a Pennsylvania corporation (the "Corporation"), DOES HEREBY CERTIFY:

A. That, pursuant to authority conferred upon the Board of Directors by the Articles of Incorporation and in accordance with the provisions of Section 1522 of the Pennsylvania Business Corporation Law of 1988, as amended, the Board of Directors of the Corporation adopted the following resolution at a duly called and noticed meeting held on the 5th day of March, 1996:

BE IT RESOLVED, that pursuant to the authority expressly vested in the Board of Directors by the Corporation's Articles of Incorporation, the Board of Directors deems it advisable to, and hereby does, designate a new series of preferred stock of the Corporation, par value one dollar (\$1.00) per share, to be known as the "Series B Preferred Stock." The voting rights, preferences, limitations and special rights of the Series B Preferred Stock are as follows:

1. Designation. The shares of such series of Preferred Stock shall be designated as "Series B Preferred Stock."
2. Authorized Number. The number of shares constituting the Series B Preferred Stock shall be 32,200 shares.
3. Dividends. Beginning on March 1, 1997, and on each June 1, September 1, December 1 and March 1 thereafter, the holders of shares of Series B Preferred Stock shall be entitled to receive a quarterly dividend in arrears equal to \$1.5125 per share of Series B Preferred Stock (as adjusted for any stock dividends, combinations or splits with respect to such shares) out of funds legally available for such purchase. Such dividends shall be payable only when, as and if declared by the Board of Directors, provided that quarterly dividends that are not so paid shall be cumulative, and accumulations of dividends shall bear interest at the rate of 6.05% per annum. No dividend or other distribution shall be declared or paid (other than dividends payable in shares of common stock of the Corporation, par value \$.50 per share (the "Common Stock") or options to purchase or rights to subscribe for Common Stock, or securities by their terms convertible into or exchangeable for Common Stock, or options to purchase or rights to subscribe for such convertible or exchangeable securities, provided that such securities rank junior to the Series B Preferred Stock with respect to the payment of dividends and liquidation proceeds) on any shares of the Corporation's capital stock ranking junior to the Series B Preferred Stock as to payment of dividends unless all dividends on the Series B Preferred Stock accrued for all past quarterly dividend periods shall have been paid and the full dividend thereon for the current dividend period shall be paid or declared and set apart for payment. The Corporation's Series B Preferred Stock shall rank senior to its Series A Preferred Stock and its Common Stock with respect to the right to receive dividends and other distributions.
4. Rights on Liquidation, Dissolution, Winding-Up.
  - (a) In the event of any liquidation, dissolution or winding-up of the affairs of the Corporation (collectively, a "Liquidation"), whether voluntary or involuntary, before any payment of cash or distribution of other property is made to the holders of the Common Stock or any other class or series of shares ranking on Liquidation junior to the Series B Preferred Stock, the holders of Series B Preferred Stock shall be entitled to receive out of the assets of the Corporation legally available for distribution to its shareholders, an amount per share (rounded to the nearest \$0.01 equal to the Liquidation Preference (as defined below), plus an amount equal to any accrued but unpaid cumulative dividends and any interest accrued thereon. The Liquidation Preference shall be equal to \$100.00 per share (as adjusted for any stock dividends, combinations or splits with respect to such shares).

(b) If upon the occurrence of any Liquidation, whether voluntary or involuntary, the assets and funds to be distributed among holders of Series B Preferred Stock and any other class or series of stock ranking equal to the Series B Preferred Stock as to distribution of assets upon Liquidation shall be insufficient to permit the payment to the holders of the preferential amounts described in Section 4(a), then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among holders of Series B Preferred Stock and any other class or series of stock ranking equal to the Series B Preferred Stock as to distribution of assets upon Liquidation in accordance with the sums that would be payable on such distribution if all sums payable thereon to holders of all shares of such classes or series were paid in full.

(c) If upon the occurrence of any liquidation, the assets and funds thus distributed among holders of Series B Preferred Stock shall be sufficient to permit the payment to such holders of the preferential amounts described in Section 4(a), then the holders of shares of Series B Preferred Stock shall be entitled to no further participation in the distribution of the assets of the Corporation and any remaining net assets of the Corporation may be distributed to the holders of Common Stock and any other class or series of stock ranking junior to the Series B Preferred Stock as to the distribution of assets upon Liquidation in accordance with their relative liquidation preferences. Written notice of such liquidation, dissolution or winding up, stating a payment date, the amount of the Liquidation payments and the place where said Liquidation payments shall be payable, shall be given by mail, postage prepaid, not less than 30 days prior to the payment date stated therein, to the holders of record of Series B Preferred Stock, such notice to be addressed to each such holder at his post office address as shown by the records of the Corporation.

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Except as provided in Section 5, a consolidation or merger of the Corporation into or with any other corporation or corporations shall not be deemed to be a liquidation, dissolution or winding up of the Corporation within the meanings of the provisions of this section 4.

The Company's Series B Preferred Stock shall rank senior to its Series A Preferred Stock with respect to the right to the distribution of the Company's assets upon liquidation.

5. Merger, Consolidation, etc. The Corporation shall give notice to each holder of Series B Preferred Stock at least 20 days prior to the effective date of (i) any consolidation or merger of the Corporation with or into any other corporation or corporations (other than a merger or consolidation in which the holders of Series B Preferred Stock receive securities of the surviving corporation having substantially similar rights to the Series B Preferred Stock and in which the shareholders of the Corporation immediately prior to the transaction will be the holders of at least a majority of the voting securities of the surviving corporation immediately after the transaction); (ii) a sale, conveyance or disposition of all or substantially all of the assets of the Corporation; or (iii) the effectuation by the Corporation of a transaction or series of related transactions in which more than 50% of the voting power of the Corporation is disposed of. The holders of a majority of the Series B Preferred Stock shall be entitled, by electing prior to the effective date of any of the foregoing types of transactions, to require the Corporation to treat any such transaction as if it were a Liquidation and to cause the proceeds of such transaction, or any property deliverable from such transaction to be distributed among the shareholders as if such transaction were a Liquidation.

6. Protective Provisions. So long as any shares of Series B Preferred Stock shall remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least a majority of the shares of Series B Preferred Stock at the time outstanding adopt any amendment to its Articles of Incorporation which would adversely affect in any material respect the rights or preferences of shares of the Series B Preferred Stock as set forth in this Statement of Designation.

7. Conversion. The Series B Preferred Stock shall not be convertible into any other class or series of capital stock of the Corporation.

8. Redemption.

(a) The Series B Preferred Stock shall not be redeemable by the Corporation prior to November 30, 2001. Thereafter, up to 20% of the number of the number of shares of Series B Preferred Stock originally issued may be called for redemption by the Corporation, in whole or in part, each year starting on December 1, 2001 (the "Redemption Date"), upon 30 days' prior written notice, by the payment therefor of an amount per share (rounded to the nearest \$0.01) equal to the sum of (i) the Liquidation Preference and (ii) all accumulations of accrued and unpaid dividends on such outstanding shares of Series B Preferred Stock (together with any accrued interest thereon) through the date of redemption (such amount, the "Redemption Price"). The Corporation's right to redeem shall be cumulative, such that any shares the Corporation has a right to redeem in one year that are not so redeemed, may be

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redeemed by the Corporation in a subsequent year. At the election of the holders of the Series B Preferred Stock called for redemption by the Corporation, the Redemption Price may be paid in cash or by the delivery of a promissory note of the Corporation in substantially the form attached hereto as Exhibit "A" (the "Note"). The election by the holders of the shares being redeemed shall be made by written notice to the Corporation no less than 15 days prior to the Redemption Date, otherwise the Corporation may elect to pay the Redemption Price in cash.

(b) The Series B Preferred Stock shall not be called for redemption by the holders prior to December 1, 1998. Thereafter, the Series B Preferred Stock may be called for redemption, in whole or in part, by such holders, and thereupon shall be redeemed for cash by the Corporation, upon 30 days' prior written notice, from such holders at a per share price equal to the Redemption Price.

(c) Shares of Series B Preferred Stock are not subject to or entitled to the benefit of a sinking fund.

(d) Shares of Series B Preferred Stock that are redeemed shall be canceled and shall not be reissuable by the Corporation and the Articles of Incorporation of the Corporation shall be appropriately amended to effect a corresponding reduction in the Corporation's authorized capital stock.

(e) If notice of redemption as provided in Section (a) above shall have been duly given or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable authorization promptly to give such notice, and if on or before the Redemption Date specified therein the Corporation shall have either deposited the funds necessary for such redemption with, or delivered a Note in the amount of the applicable Redemption to, such bank or trust company in trust for the benefit of the holders of the shares called for redemption, then, notwithstanding that any certificates for shares so called for redemption shall not have been surrendered for cancellation, from and after the Redemption Date, all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest. Any interest accrued on such funds shall be paid to the Corporation from time to time. The aforesaid bank or trust company shall be organized and in good standing under the laws of the United States of America, or the Commonwealth of Pennsylvania, shall be doing business in Pennsylvania, and shall be identified in the notice of redemption. Any funds so set aside or deposited, as the case may be, and unclaimed at the end of two years from such Redemption Date shall, to the extent permitted by law, be released or repaid to the Corporation, after which repayment the holders of the shares so called for redemption shall look only to the Corporation for payment thereof.

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B. The aggregate number of shares of Series B Preferred Stock established by the foregoing resolutions, all prior statements, if any, filed under Section 1522 of the Pennsylvania Business Law of 1988, as amended, or corresponding provisions of prior law with respect thereto, and any other provisions of the Corporation's Articles of Incorporation shall be 32,200 shares.

IN WITNESS WHEREOF, the undersigned has executed this Statement this 22nd day of November, 1996.

PHILADELPHIA SUBURBAN CORPORATION

By: /s/ Nicholas DeBenedictis  
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EXHIBIT A

PROMISSORY NOTE

\$ \_\_\_\_\_

FOR VALUE RECEIVED, the undersigned, PHILADELPHIA SUBURBAN CORPORATION, a Pennsylvania, corporation ("Borrower"), HEREBY IRREVOCABLY PROMISES TO PAY to \_\_\_\_\_ ("Payee"), the principal sum of \_\_\_\_\_ AND 00/100 DOLLARS (\$ \_\_\_\_\_), together with interest on the principal balance hereof from time to time unpaid at the rates provided below until payment in full thereof.

Interest shall accrue on the principal balance from time to time outstanding hereunder at a rate per annum equal to 6.05% per annum. The principal amount of this note shall be due within sixty (60) days of Borrower's receipt of written demand from the Payee, but no later than [insert date 5 years after the applicable date of redemption]. All accrued and unpaid interest shall be due and payable quarterly, in arrears, on [insert interest payment dates].

If any payment of interest or principal hereunder becomes due and payable on a day other than a business day, the maturity thereof shall be extended to the next succeeding business day and, with respect to payments or principal, interest thereon at the then applicable rate and for the period of such extension shall be payable on such next succeeding business day. The term "business day" means any day other than a Saturday, a Sunday or a day on which banking institutions in Philadelphia, Pennsylvania are not required to be open.

Both principal and interest hereunder are payable in lawful money of the United States of America via first class United States mail to [insert payee's address].

Demand, presentment, protest and notice of nonpayment and protest, notice of intention to accelerate maturity, notice of acceleration of maturity, and notice of dishonor are hereby waived by Borrower.

If Borrower shall make a general assignment for the benefit of creditors or any proceeding shall be instituted by or against Borrower seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, or other similar official for it or for any substantial part of its assets, or if Borrower shall take any corporate action to authorize any of the actions set forth above in this paragraph, then all of the obligations evidenced by this Promissory Note shall automatically, without notice or demand by Payee, be immediately due and payable. If Borrower shall fail to make payment of principal or interest when due hereunder and if Borrower has not made such payment within ten business days of receipt of notice by Payee, the obligations evidenced by this Promissory Note shall, at the option of Payee, be due in payable in full.

Whenever possible each provision of this Promissory Note shall be interpreted in such manner as to be effective and valued under applicable law, but if any provision of this Promissory Note shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Promissory Note.

THIS PROMISSORY NOTE SHALL BE INTERPRETED, AND THE RIGHTS AND  
LIABILITIES OF THE PARTIES HERETO DETERMINED, IN ACCORDANCE WITH THE INTERNAL  
LAWS AND DECISIONS, AND NOT THE CONFLICTS OF LAW PROVISIONS, OF THE COMMONWEALTH  
OF PENNSYLVANIA.

PHILADELPHIA SUBURBAN CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FIRST AMENDMENT TO REVOLVING CREDIT AGREEMENT

FIRST AMENDMENT to Revolving Credit Agreement ("First Amendment"), dated as of May 22, 1995, among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Borrower"), the Banks signatory hereto (the "Banks"), and Mellon Bank, N.A., in its capacity as agent for the Banks hereunder (hereafter the "Agent").

W I T N E S S E T H

WHEREAS, the Borrower, the Agent and the Banks are parties to a Revolving Credit Agreement dated as of March 17, 1994, (as amended, modified and/or extended, the "Loan Agreement"), pursuant to which the Banks agreed to make available to the Borrower certain credit facilities in the aggregate amount of \$30,000,000 upon the terms and conditions specified in the Loan Agreement;

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

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

1. Effect of Prior Agreements.

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

2. Amendments.

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

2.01 The Revolving Credit Commitment. The maximum aggregate amount the Banks shall be obligated to lend to the Borrower at any given time under this Agreement shall be Forty Million Dollars (\$40,000,000) from May 22, 1995 through and including July 21, 1995, and Thirty Million Dollars (\$30,000,000) thereafter until the Revolving Credit Commitment Termination Date, as such amounts may have been reduced under Section 2.03 hereof (the "Revolving Credit Commitment").

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

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

(a) The Borrower shall execute and deliver to the Banks this First Amendment, the First Allonges to Revolving Credit Notes (the "First Allonges") and all other documents as the Banks may require; and

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

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

(a) The representations and warranties contained in the

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

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

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

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

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

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

6. Miscellaneous.

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

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

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

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

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

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

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

ATTEST:

PHILADELPHIA SUBURBAN WATER COMPANY



By: -----  
Name:  
Title:

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

MELLON BANK, N.A.

By: Frank P. Mohapp  
-----  
Name: Frank P. Mohapp  
Title: Vice President  
Address: Plymouth Meeting  
Executive Campus  
610 West Germantown Pike  
Suite 200  
Plymouth Meeting, PA 19462  
Tel. No: (610) 941-4188  
Telecopy: (610) 941-4136

PNC BANK, NATIONAL ASSOCIATION

By: Julie P. Rokke  
-----  
Name: Julie P. Rokke  
Title: Banking Officer  
Address: Valley Forge Regional Banking Center  
Suite 200  
1000 Westlakes Drive  
Berwyn, PA 19312  
Tel. No: (610) 640-4900  
Telecopy: (610) 640-4914

FIRST FIDELITY BANK,  
NATIONAL ASSOCIATION

By: Thomas J. Saunders  
-----  
Name: Thomas J. Saunders  
Title: Vice President  
Address: 123 South Broad Street  
PMB010  
Philadelphia, PA 19109-1199  
Tel. No: (215) 985-3575  
Telecopy: (215) 985-3719

MERIDIAN BANK

By: Patrick B. Trainor  
-----  
Name: Patrick B. Trainor  
Title: Assistant Vice President  
Address: Corporate Banking Department  
One Liberty Place, Suite 3600  
Philadelphia, PA 19103  
Mailing  
Address: Corporate Banking Department  
OL3620  
P.O. Box 7588  
Philadelphia, PA 19103  
Tel. No: (215) 854-3778

STATE OF : Pennsylvania

ss.

COUNTY OF : Montgomery

On the 19th day of May, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone

-----  
Notary Public

(NOTARIAL SEAL)

My Commission expires:

July 26, 1997

REPLACEMENT SCHEDULE 1.01(a)

Name and Address of Bank -----	Amount of Commitment For Revolving Credit Loans From 05/22/95 through 07/22/95 -----	Amount of Commitment for Revolving Credit Loans From 07/22/95 -----	Percentages -----
1. Mellon Bank, N.A. Plymouth Meeting Executive Campus 610 West Germantown Pike Suite 200 Plymouth Meeting, PA 19462 Attn: Frank P. Mohapp Vice President Tel: (610) 941-4188 Fax: (610) 941-4136  Mellon Bank, N.A. Attn: Loan Administration, Flossie Bowers Mellon Independence Center 199-5220 701 Market Street Philadelphia, PA 19106 Tel: (215) 553-3414 Fax: (215) 553-4789 or (215) 553-1016	\$25,333,333.34	\$19,000,000	63 1/3%
2. PNC Bank, National Association Valley Forge Regional Banking Center Suite 200 1000 Westlakes Drive Berwyn, PA 19312	\$ 5,333,333.33	\$4,000,000	13 1/3%
3. First Fidelity Bank, National Association 123 South Broad Street PMB010 Philadelphia, PA 19101-1199	\$ 5,333,333.33	\$4,000,000	13 1/3%
4. Meridian Bank Corporate Banking Department OL3620 P.O. Box 7588 Philadelphia, PA 19101	\$ 4,000,000.00 -----	\$3,000,000 -----	10% -----
TOTAL REVOLVING CREDIT COMMITMENTS:	\$40,000,000 =====	\$30,000,000 =====	100%

FIRST ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: Mellon Bank, N.A.  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$19,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$6,333,333.33 from \$19,000,000 to \$25,333,333.34 from May 22, 1995 to July 21, 1995. On July 21, 1995 the maximum principal amount shall automatically reduce to \$19,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this First Allonge to be executed by its duly authorized officer as of the 22nd day of May, 1995.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

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

STATE OF PENNSYLVANIA :  
ss.  
COUNTY OF MONTGOMERY :

On the 19th day of May, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

Notarial Seal  
My Commission expires:  
July 26, 1997  
-----

FIRST ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: First Fidelity Bank, National Association

DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$4,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$1,333,333.33 from \$4,000,000 to \$5,333,333.34 from May 22, 1995 to July 21, 1995. On July 22, 1995 the maximum principal amount shall automatically reduce to \$4,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this First Allonge to be executed by its duly authorized officer as of the 22nd day of May, 1995.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: Patricia M. Mycek  
-----

By: Michael P. Graham  
-----  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :

ss.

COUNTY OF MONTGOMERY :

On the 19th day of May, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

Notarial Seal

My Commission expires:

July 26, 1997  
-----

FIRST ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: Meridian Bank  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$4,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$1,000,000 from \$3,000,000 to \$4,000,000 from July 21, 1995 to August 31, 1995. On July 21, 1995 the maximum principal amount shall automatically reduce to \$3,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this First Allonge to be executed by its duly authorized officer as of the 22nd day of May, 1995.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: Patricia M. Mycek  
-----

By: Michael P. Graham  
-----  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
  
ss.

COUNTY OF MONTGOMERY :

On the 19th day of May, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

Notarial Seal

My Commission expires:

July 26, 1997  
-----

FIRST ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: PNC Bank, National Association  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$4,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$1,333,333.33 from \$4,000,000 to \$5,333,333.33 from May 22, 1995 to July 21, 1995. On July 22, 1995 the maximum principal amount shall automatically reduce to \$4,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this First Allonge to be executed by its duly authorized officer as of the 22nd day of May, 1995.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

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

STATE OF PENNSYLVANIA :
ss.

COUNTY OF MONTGOMERY :

On the 19th day of May, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone
Notary Public

Notarial Seal
My Commission expires:
July 26, 1997

PHILADELPHIA SUBURBAN WATER COMPANY

OFFICER'S CERTIFICATE

The undersigned officer of Philadelphia Suburban Water Company (the "Borrower"), hereby certifies that:

- 1. The Articles and Certificate of Incorporation, as amended, and the By-laws delivered on March 17, 1994 to the Bank have not been amended, modified or rescinded and remain in full force and effect;
2. The Borrower is and remains in Good Standing in the Commonwealth of Pennsylvania and all other jurisdictions where it is required to remain in Good Standing.
3. The Resolutions adopted by the Board of Directors of the Borrower at a regular meeting held on February 1, 1994 have not been amended, modified or revoked, are in full force and effect, and authorize the appropriate officers to execute the First Amendment to the Revolving Credit Agreement dated the date hereof and applicable Allonges.

IN WITNESS WHEREOF, the undersigned hereby executed this Certificate this 23rd day of May, 1995.

Michael P. Graham
Name: Michael P. Graham

Title: Senior Vice President  
- Finance and Treasurer

MELLON BANK, N..A  
Plymouth Meeting Executive Campus  
610 West Germantown Pike, Suite 200  
Plymouth Meeting, Pennsylvania 19462

July 21, 1995

Philadelphia Suburban Water Company  
762 Lancaster Avenue  
Bryn Mawr, PA 19010  
Attn: Mr. Michael P. Graham  
Senior Vice President

Gentlemen:

Reference is hereby made to that certain Revolving Credit Agreement dated as of March 17, 1994, as amended by the First Amendment to Revolving Credit Agreement dated May 22, 1995 (as amended, modified and/or extended, the "Loan Agreement") among Mellon Bank, N.A., in its capacity as Agent for the Banks referenced in the Loan Agreement, the Banks (the "Banks ") and Philadelphia Suburban Water Company (the "Borrower"). All capitalized terms used herein as defined terms shall have the meanings ascribed to them in the Loan Agreement unless herein provided to the contrary.

The Agent, Banks and Borrower each hereby agree that Section 2.01 of the Loan Agreement is hereby amended and restated to read as follows:

Section 2.01 The Revolving Credit Commitment. The maximum aggregate amount the Banks shall be obligated to lend to the Borrower at any time under this Loan Agreement shall be Forty Million Dollars (\$40,000,000) from May 22, 1995 through and including August 31, 1995, and Thirty Million Dollars (\$30,000,000) thereafter until the Revolving Credit Commitment Termination Date, as such amounts may have been reduced under Section 2.03 hereof.

The Borrower hereby represents and warrants that no Event of Default, and to the Borrower's knowledge, no event which with the passage of time or giving of notice or both would constitute an Event of Default exists on the date hereof and no offsets or defenses exist against its obligations under the Loan Agreement, the Notes or the Loan Documents delivered in connection therewith.

The Borrower also represents and warrants that this letter agreement and the allonges to the Notes executed herewith have been duly authorized, executed and delivered so as to constitute the legal, valid, and binding obligations of the Borrower, enforceable in accordance with their respective terms, except as the same may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors rights generally, and general principles of equity. To the extent an Event of Default exists on the date hereof, any and all undertakings of the Agent and the Banks under or pursuant to this letter agreement shall not be deemed a waiver by the Agent or the Banks of any such Event of Default or any of the Agent's or Banks' rights and remedies under the Loan Agreement and/or applicable law; and the Banks hereby reserve all such rights and remedies.

All terms, conditions, provisions and covenants under the Loan Agreement, the Notes as amended, and all other Loan Documents delivered to the Agent and the Banks in connection therewith shall remain unaltered and in force and effect except as modified and/or amended hereby and are hereby ratified and confirmed. This letter agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania. This letter agreement may be executed in one or more counterparts, and by different parties on different counterparts, each of which shall be deemed an original, all of which together shall constitute one and the same instrument, and making proof of this letter



agreement it shall be necessary to produce only one counterpart. This letter agreement shall have effect as of July 21, 1995.

Sincerely,

MELLON BANK, N.A., in its individual capacity as a Bank and in its capacity as Agent for the Banks

By: Frank P. Mohapp

-----  
Name: Frank P. Mohapp  
Title: Vice President  
Address: Plymouth Meeting  
Executive Campus  
610 West Germantown Pike  
Suite 200  
Plymouth Meeting, PA 19462  
Tel. No: (610) 941-4188  
Telecopy: (610) 941-4136

PNC BANK, NATIONAL ASSOCIATION

By: Julie P. Rokke

-----  
Name: Julie P. Rokke  
Title: Banking Officer  
Address: Valley Forge Regional  
Banking Center  
Suite 200  
1000 Westlakes Drive  
Berwyn, PA 19312  
Tel. No: (610) 640-4900  
Telecopy: (610) 640-4914

FIRST FIDELITY BANK,  
NATIONAL ASSOCIATION

By: Thomas J. Saunders

-----  
Name: Thomas J. Saunders  
Title: Vice President  
Address: 123 South Broad Street  
PMB010  
Philadelphia, PA 19109-1199  
Tel. No: (215) 985-3575  
Telecopy: (215) 985-3719

MERIDIAN BANK

By: Patrick B. Trainor

-----  
Name: Patrick B. Trainor  
Title: Assistant Vice President  
Address: Corporate Banking Department  
One Liberty Place, Suite 3600  
Philadelphia, PA 19103  
Mailing  
Address: Corporate Banking Department  
OL3620  
P.O. Box 7588  
Philadelphia, PA 19103  
Tel. No: (215) 854-3778  
Telecopy: (215) 854-3774

SECOND ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: Mellon Bank, N.A.  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$19,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$6,333,333.33 from \$19,000,000 to \$25,333,333.34 from May 22, 1995 to August 31, 1995. On September 1, 1995 the maximum principal amount shall automatically reduce to \$19,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Second Allonge to be executed by its duly authorized officer as of the 21st day of July, 1995.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: Patricia M. Mycek  
-----

By: Michael P. Graham  
-----

Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
ss.  
COUNTY OF MONTGOMERY :

On the 21st day of July, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----

Notary Public

Notarial Seal

My Commission expires:

July 26, 1997  
-----

SECOND ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company



PRINCIPAL AMOUNT: \$3,000,000

DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$1,000,000 from \$3,000,000 to \$4,000,000 from May 22, 1995 to August 31, 1995. On September 1, 1995 the maximum principal amount shall automatically reduce to \$3,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Second Allonge to be executed by its duly authorized officer as of the 21st day of July, 1995.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: Patricia M. Mycek  
-----

By: Michael P. Graham  
-----  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
ss.  
COUNTY OF MONTGOMERY :

On the 21st day of July, 1995, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

Notarial Seal

My Commission expires:

July 26, 1997  
-----

SECOND ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company

PAYEE: PNC Bank, National Association

DATE: March 17, 1994

PRINCIPAL AMOUNT: \$4,000,000



execute the letter agreement relating to the Revolving Credit Agreement dated the date hereof and applicable Allonges.

IN WITNESS WHEREOF, the undersigned hereby executed this Certificate this 21st day of July, 1995.

Michael P. Graham

-----  
Name: Michael P. Graham  
Title: Senior Vice President  
- Finance and Treasurer

THIRD AMENDMENT TO REVOLVING CREDIT AGREEMENT

THIRD AMENDMENT to Revolving Credit Agreement ("Third Amendment"), dated as of December 20, 1996, among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Borrower"), the Banks signatory hereto (the "Banks"), and Mellon Bank, N.A., in its capacity as agent for the Banks hereunder (hereafter the "Agent").

W I T N E S S E T H

WHEREAS, the Borrower, the Agent and the Banks are parties to a Revolving Credit Agreement dated as of March 17, 1994, as amended by a First Amendment to Revolving Credit Agreement dated as of May 22, 1995, and as further amended by a letter agreement dated July 21, 1995 (as amended, modified and/or extended, the "Loan Agreement"), pursuant to which the Banks agreed to make available to the Borrower certain credit facilities in the aggregate amount of \$30,000,000 upon the terms and conditions specified in the Loan Agreement;

WHEREAS, pursuant to an Assignment and Assumption Agreement dated December 20, 1996, between First Union National Bank f/k/a First Fidelity Bank, N.A. ("First Union") and First Union National Bank of North Carolina ("First Union-NC"), First Union has sold and assigned to First Union-NC all of First Union's interest in and to First Union's rights and obligations under the Loan Agreement as of the date hereof; and

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

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

1. Effect of Prior Agreements.

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

2. Amendments.

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

2.01 The Revolving Credit Commitment. The maximum aggregate amount the Banks shall be obligated to lend to the Borrower at any given time under this Agreement shall be Fifty Million Dollars (\$50,000,000) from December 20, 1996 through and including December 31, 1997, and Thirty Million Dollars (\$30,000,000) thereafter until the Revolving Credit Commitment Termination Date, as such amounts may have been reduced under Section 2.03 hereof (the "Revolving Credit Commitment").

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

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

(a) The Borrower shall execute and deliver to the Banks this Third

Amendment, the Third Allonges to Revolving Credit Notes (the "Third Allonges") and all other documents as the Banks may require; and

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

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

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

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

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

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

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

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

6. Miscellaneous.

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

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

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

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

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

(f) To the extent an Event of Default exists on the date hereof, any



and all undertakings of the Agent and the Banks under or pursuant to this Third Amendment shall not be deemed a waiver by the Agent or the Banks of any such Event of Default or any of the Agent's or the Banks' rights and remedies under the Loan Agreement and/or applicable law; and the Banks hereby reserve any and all such rights and remedies.

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

ATTEST: PHILADELPHIA SUBURBAN WATER COMPANY

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

MELLON BANK, N.A.

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

PNC BANK, NATIONAL ASSOCIATION

By: Kevin D. Wheatley  
Name: Kevin D. Wheatley  
Title: Vice President  
Address: 630 Dresher Road  
Horsham, PA 19312  
Tel. No: (215) 773-5254  
Telecopy: (215) 773-5270

FIRST UNION NATIONAL BANK OF NORTH  
CAROLINA (successor to First Fidelity Bank,  
National Association)

By: Michael J. Kolosowsky  
Name: Michael J. Kolosowsky  
Title: Vice President  
Address: 123 South Broad Street  
PA1219  
Philadelphia, PA 19109  
Tel. No: (215) 985-7556  
Telecopy: (215) 985-3555  
Notices to: Carl E. Goelz

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

By: Anthony D. Braxton  
Name: Anthony D. Braxton  
Title: Vice President

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

STATE OF : Pennsylvania

ss.

COUNTY OF : Montgomery

On the 20th day of December, 1996, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham, who acknowledged himself to be the Senior Vice President Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
 -----  
 Notary Public

(NOTARIAL SEAL)

My Commission expires:

July 26, 1997  
 -----

SECOND REPLACEMENT SCHEDULE 1.01(a)  
 -----

Name and Address of Bank	Amount of Commitment For Revolving Credit Loans From 12/20/96 through 12/31/97 -----	Amount of Commitment for Revolving Credit Loans From 01/01/98 -----	Percentages -----
1. Mellon Bank, N.A. Plymouth Meeting Executive Campus 610 West Germantown Pike Suite 200 Plymouth Meeting, PA 19462 Attn: Anthony R. Caringi Assistant Vice President Tel: (610) 941-4182 Fax: (610) 941-4136  Mellon Bank, N.A. Attn: Loan Administration, Flossie Bowers Mellon Independence Center 199-5220 701 Market Street Philadelphia, PA 19106 Tel: (215) 553-3414 Fax: (215) 553-4789 or (215) 553-1016	\$31,666,666.67	\$19,000,000	63 1/3%
2. PNC Bank, National Association 630 Dresher Road Horsham, PA 19044	\$ 6,666,666.67	\$4,000,000	13 1/3%
3. First Union National Bank of North Carolina (successor to First Fidelity Bank, National Association) 123 South Broad Street PA1219 Philadelphia, PA 19109	\$ 6,666,666.66	\$4,000,000	13 1/3%

4. CoreStates Bank, N.A. (successor to Meridian Bank) FC 1-8-10-73 1339 Chestnut Street P.O. Box 7815 Philadelphia, PA 19101-7618	\$ 5,000,000.00	\$3,000,000	10%
	-----	-----	----
	-		
TOTAL REVOLVING CREDIT COMMITMENTS:	\$50,000,000 -----	\$30,000,000 -----	100% ----

THIRD ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: Mellon Bank, N.A.  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$19,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$12,666,666.67 from \$19,000,000 to \$31,666,666.67 from December 20, 1996 to December 31, 1997. On January 1, 1998 the maximum principal amount shall automatically reduce to \$19,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Third Allonge to be executed by its duly authorized officer as of the 20th day of December, 1996.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: \_\_\_\_\_ By: Michael P. Graham  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
ss. :  
COUNTY OF MONTGOMERY :

On the 20th day of December, 1996, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

(NOTARIAL SEAL)

My Commission expires:

July 26, 1997  
-----

THIRD ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: First Union National Bank of North Carolina  
(successor to First Fidelity Bank, National  
Association)  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$4,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$2,666,666.67 from \$4,000,000 to \$6,666,666.67 from December 20, 1996 to December 31, 1997. On January 1, 1998 the maximum principal amount shall automatically reduce to \$4,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Third Allonge to be executed by its duly authorized officer as of the 20th day of December, 1996.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: \_\_\_\_\_ By: Michael P. Graham  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
ss.  
COUNTY OF MONTGOMERY :

On the 20th day of December, 1996, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

(NOTARIAL SEAL)  
My Commission expires:  
July 26, 1997  
-----

THIRD ALLONGE TO REVOLVING CREDIT NOTE  
ENDORSEMENT SEPARATE FROM INSTRUMENT

BORROWER: Philadelphia Suburban Water Company  
PAYEE: CoreStates Bank, N.A. (successor to Meridian Bank)  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$3,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$2,000,000 from \$3,000,000 to \$5,000,000 from December 20, 1996 to December 31, 1997. On January 1, 1998 the maximum principal amount shall automatically reduce to \$3,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Third Allonge to be executed by its duly authorized officer as of the 20th day of December, 1996.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: \_\_\_\_\_ By: Michael P. Graham  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
ss.  
COUNTY OF MONTGOMERY :

On the 20th day of December, 1996, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

(NOTARIAL SEAL)

My Commission expires:

July 26, 1997  
-----

BORROWER: Philadelphia Suburban Water Company  
PAYEE: PNC Bank, National Association  
DATE: March 17, 1994  
PRINCIPAL AMOUNT: \$4,000,000  
DUE DATE: March 1, 1998

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

The Revolving Credit Note is hereby amended by temporarily increasing the maximum principal amount permitted to be borrowed thereunder by \$2,666,666.66 from \$4,000,000 to \$6,666,666.66 from December 20, 1996 to December 31, 1997. On January 1, 1998 the maximum principal amount shall automatically reduce to \$4,000,000.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, has caused this Third Allonge to be executed by its duly authorized officer as of the 20th day of December, 1996.

Attest: PHILADELPHIA SUBURBAN WATER COMPANY

By: \_\_\_\_\_ By: Michael P. Graham  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

STATE OF PENNSYLVANIA :  
ss.  
COUNTY OF MONTGOMERY :

On the 20th day of December, 1996, before me, the subscriber, a Notary Public in and for the State and County aforesaid, personally appeared Michael P. Graham who acknowledged himself to be the Senior Vice President - Finance and Treasurer of Philadelphia Suburban Water Company, a Pennsylvania corporation, and that he as such officer being authorized to do so, executed and delivered the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer.

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

Suzanne Falcone  
-----  
Notary Public

(NOTARIAL SEAL)

My Commission expires:

July 26, 1997  
-----

PHILADELPHIA SUBURBAN WATER COMPANY

OFFICER'S CERTIFICATE

The undersigned officer of Philadelphia Suburban Water Company (the "Borrower"), hereby certifies that:

1. The Articles and Certificate of Incorporation of the Borrower, as amended, and the By-laws of the Borrower delivered to Mellon Bank, N.A. on March

17, 1994 have not been amended, modified or rescinded and remain in full force and effect;

2. The Borrower is and remains in Good Standing in the Commonwealth of Pennsylvania and all other jurisdictions where it is required to remain in Good Standing.

3. The Resolutions adopted by the Board of Directors of the Borrower at a regular meeting held on February 1, 1994 have not been amended, modified or revoked, are in full force and effect, and authorize the appropriate officers of the Borrower to execute the Third Amendment to the Revolving Credit Agreement dated the date hereof and applicable Allonges.

IN WITNESS WHEREOF, the undersigned hereby executed this Certificate this 20th day of December, 1996.

Michael P. Graham

-----  
Name: Michael P. Graham  
Title: Senior Vice President -  
Finance and Treasurer

AMENDMENT 1994-2  
TO THE 1994 PHILADELPHIA SUBURBAN CORPORATION  
EQUITY COMPENSATION PLAN

1. Section 4 of the Plan is amended to read, in its entirety, as follows:

"Subject to adjustment as provided in Section 15, the maximum aggregate number of shares of the Common Stock of the Corporation that may be issued or transferred under the Plan shall be 950,000 shares. The maximum number of shares of Common Stock that may be issued or transferred under the Plan subject to restricted stock grants is 25,000 shares of Common Stock. Shares deliverable under the Plan may be authorized and unissued shares or treasury shares, as the Committee may from time to time determine. Shares of Common Stock related to the unexercised or undistributed portion of any terminated, expired or forfeited Grant for which no material benefit was received by a grantee also may be made available for distribution in connection with future Grants under the Plan."



PHILADELPHIA SUBURBAN CORPORATION  
PHILADELPHIA SUBURBAN WATER COMPANY  
1997 ANNUAL CASH INCENTIVE COMPENSATION PLAN

BACKGROUND

- o 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.
- o The study included interviews with PSWC and PSC executives and an analysis of competitive compensation levels. Based on the results, the compensation consultant recommended that the Company's objectives and competitive practice supported the adoption of an annual incentive plan (the "Plan"). The Company has had a cash incentive compensation plan in place since 1990 and management and the Board of Directors feel it has had a positive effect on the Company's operations, aiding employees, shareholders (higher earnings) and customers (better service and controlling expenses).
- o The Plan has two components - a Management Incentive Program and an Employee Recognition ("Chairman's Award") Program.
- o The Plan is designed to provide an appropriate incentive to the officers and managers of the Company. The 1996 Management Incentive Program will cover all officers and managers of Philadelphia Suburban Corporation, and its subsidiaries.

MANAGEMENT INCENTIVE PROGRAM

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

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

- The Company's actual after-tax net income from continuing operations relative to the annual budget will be the primary measure for the Company's performance. Each year a "Target Net Income" level will be established. For purposes of the Plan, the Target Net Income may differ from the budgeted net income level. For 1997, the Target Net Income will exclude the impact of adverse PUC or court rulings on FAS 106, the effect of any unbudgeted extraordinary gains or losses, changes in accounting principles, changes in tax rates and any gains or losses related to the discontinued operations.

- Based on a review of historic performance, the minimum or threshold level of performance is set at 90 percent of the Target Net Income. That is, no bonus awards will be made if actual net income is less than 90 percent of the Target Net Income for the year. No additional bonus will be earned for results exceeding 110 percent of the Target Net Income.
- Each individual's performance and achievement of his or her objectives will also be evaluated and factored into the bonus calculation. Performance objectives for each participant are established at the beginning of the year and are primarily directed toward controlling costs, improving efficiencies and productivity and enhancing customer service. Each objective has specific performance measures that are used to determine the level of achievement for each objective.

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o Participation

- Participation in the Management Incentive Program will be determined each year. Each participant will be assigned a "Target Bonus Percentage" ranging from 5 to 50 percent of salary depending on duties and responsibilities.
- Actual bonuses may range from 0, if the Company's financial results fall below the minimum threshold or the participant does not make sufficient progress toward achieving his or her objectives (i.e. performance measure points totaling less than 70 points), to 187.5 percent if performance -- both Company and individual -- is rated at the maximum.

o Company Performance

- Company performance will be measured on the following schedule:

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

- The actual Company Rating should be calculated by interpolation between the points shown in the table above.
- Regardless of the Company rating resulting from this Schedule, the Executive Compensation and Employee Benefits Committee retains the authority to determine the final Company Rating for purposes of this Plan.

3

o Individual Performance

- Individual performance will be measured on the following scale:

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

100	100%
110	110%

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

Sample Calculations

o Example 1

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

Calculation:

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

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o Example 2

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

Calculation:

\$7,000	x	0	x	90%	=	0
---------	---	---	---	-----	---	---

o Example 3

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

Calculation:

\$7,000	x	100%	x	0	=	0
---------	---	------	---	---	---	---

EMPLOYEE RECOGNITION PROGRAM

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

o Awards will be made from an annual pool, not to exceed \$125,000 (which represents approximately less than 1.5% of the base payroll for the non-union employees who do not participate in the Management Incentive Program), established at the beginning of the year. Unused funds will not be carried over to the next year. If financial performance warrants, management may request permission from the Executive Compensation and Employee Benefits Committee for special awards under the program.

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

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

AGREEMENT

Agreement made as of the 1st day of January, 1997, by and among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Nicholas DeBenedictis (the "Executive").

WHEREAS, the Executive is presently employed by the Company, as its Chairman, Chief Executive Officer and President; and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of the Company, the Company and PSC, for which certain of the employees of the Company, such as the Executive, provide key executive services, agree that the Executive shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a

cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, PSC is willing to guarantee that such compensation is paid to the Executive in light of his role in the management of the affairs of PSC or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total cash base salary, annual bonus and dividend equivalents (paid under the Company's Equity compensation Plan) received by the Executive in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise, and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options or the receipt of Restricted Stock granted to the Executive under the Company's Equity Compensation Plan and its predecessors or successors, for the three calendar years (or such number of actual full calendar years of employment, if

less than three) immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

-3-

Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of PSC; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

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

(e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except PSC or the Company or any employee benefit plan of the PSC or the Company or of any Affiliate or Associate, any Person or entity organized, appointed or established by PSC or the Company for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by PSC's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an

-4-

unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity.

Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e) (i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. Section 2543(b)) as in effect on the date of adoption of the Plan.

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

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

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

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

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

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

(v) any transfer of the Executive, without his express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months);

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

(vii) the Executive determines within 12 months of the Change of Control, that circumstance have so changed with respect to the Company or PSC, that he is no longer able to effectively perform his duties and responsibilities to the Company.

(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

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(i) "Subsidiary" shall mean any corporation in which the Company, directly or indirectly, owns at least a 50% interest or an

unincorporated entity of which the Company, directly or indirectly, owns at least 50% of the profits or capital interests.

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

(k) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with the Company and any of its Subsidiaries that actually employs the Executive.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, the Company shall pay to the Executive, upon the execution of a release in the form required by the Company of its terminating executives prior to the Change of Control, within

-7-

15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to 2.5 times the Executive's Base Compensation, subject to required employment taxes and deductions. PSC hereby guarantees the obligations of the Company and, in the event that the Company does not satisfy its obligation hereunder within the required time period, PSC shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSC that the Company has not satisfied its obligation (or a portion thereof) to the Executive.

(b) In the event the Executive's Normal Retirement Date would occur prior to 12 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 365 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments.

(a) The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of three (3) years.

(b) The Executive will also receive a payment equal to .5 times his Base Compensation and the Company will transfer to him without requiring a cash payment any life

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insurance policy maintained by it on his life pursuant to a split dollar life



insurance agreement. In exchange, for a period of 9 months after the Termination Date, the Executive agrees that he will not, unless acting pursuant with the prior written consent of the Board, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with or use or permit his name to be used in connection with, any business or enterprise engaged in a geographic area in which the Company or any of its Subsidiaries is operating on the Termination Date (the "Geographic Area"), in any business that is competitive to a business from which the Company or any of its Subsidiaries derived at least five percent of its respective annual gross revenues for the twelve (12) months preceding the Termination Date. It is recognized by the Executive that the business of the Company and its Subsidiaries and the Executive's connection therewith is or will be involved in activity throughout the Geographic Area, and that more limited geographical limitations on this non-competition covenant are therefore not appropriate. The foregoing restriction shall not be construed to prohibit the ownership by the Executive of less than one percent of any class of securities of any corporation which is engaged in any of the foregoing businesses having a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither the Executive nor any group of persons including the Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising his rights as a shareholder, or seeks to do any of the foregoing.

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(c) The Executive acknowledges that the restrictions contained in paragraph (b) are reasonable and necessary to protect the legitimate interests of the Company and its Subsidiaries and Affiliates, that the Company would not have made the payments specified in that paragraph in the absence of such restrictions, and that any violation of those provisions will result in irreparable injury to the Company. The Executive represents that his experience and capabilities are such that the restrictions contained in paragraph (b) will not prevent the Executive from obtaining employment or otherwise earning a living at the same general level of economic benefit as is the case as of the date hereof. The Executive agrees that the Company shall be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages, which right shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled. In the event that any of the provisions of paragraph (b) should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law.

5. Trust Fund. PSC sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of PSC's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that the Company (or PSC, as appropriate) shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof

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within the respective time periods provided therein, the Company shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive

not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d) (4) of the Code.

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(b) All determinations to be made under this Section 11 shall be made by the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon the Company and the Executive. The Executive shall then have the right to determine which of the Agreement Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by the Company which should not have been made

("Overpayment") or that additional Agreement Payments which have not been made by the Company could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and the Company shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest

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from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 6 months after the Executive's Termination of Employment other than for Cause, the Executive shall be entitled to all of the

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terms and conditions of this Agreement as if the Termination Date had occurred on the date of the Change of Control.

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

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

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If to PSC or to the Company, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: Chairman, Executive Compensation  
and Employee Benefits Committee

If to the Executive, to:

Mr. Nicholas DeBenedictis  
231 Golf View Road  
Ardmore, PA 19003

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

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

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

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

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

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

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

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

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

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

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

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23. Sole Agreement. In the event of a Termination of Employment following a Change of Control, a portion of the payment made to the Executive under Section 3 above, equal to one year of the Executive's base salary, shall be in lieu of the payment due to the Executive in the event his employment were actually or constructively terminated by the Company under, and this Agreement shall thereafter supersede, the next to the last paragraph of the Letter Agreement dated May 20, 1992, between PSC and the Executive with respect to the severance payment due to the Executive upon termination.

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

ATTEST: PHILADELPHIA SUBURBAN CORPORATION  
[Seal]

/s/ Patricia M. Mycek  
-----  
Secretary

By: /s/ Roy H. Stahl  
-----

ATTEST: PHILADELPHIA SUBURBAN WATER COMPANY  
[Seal]

/s/ Patricia M. Mycek  
-----  
Secretary

By: /s/ Roy H. Stahl  
-----

/s/ Lynn M. Templeton  
-----  
Witness

/s/ Nicholas DeBenedictis  
-----  
Executive

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AGREEMENT

Agreement made as of the 1st day of January, 1997, by and among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Roy H. Stahl (the "Executive").

WHEREAS, the Executive is presently employed by the Company, as its Senior Vice President - Law & Administration; and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of the Company, the Company and PSC, for which certain of the employees of the Company, such as the Executive, provide key executive services, agree that the Executive shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a

cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, PSC is willing to guarantee that such compensation is paid to the Executive in light of his role in the management of the affairs of PSC or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total cash base salary, annual bonus and dividend equivalents (paid under the Company's Equity Compensation Plan) received by the Executive in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise, and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options or the receipt of Restricted Stock granted to the Executive under the Company's Equity Compensation Plan and its predecessors or successors, for the three calendar years (or such number of actual full calendar years of employment, if less than three)

immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of PSC; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

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

(e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except PSC or the Company or any employee benefit plan of the PSC or the Company or of any Affiliate or Associate, any Person or entity organized, appointed or established by PSC or the Company for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by PSC's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an

unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity.

Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e) (i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. ss.2543(b)) as in effect on the date of adoption of the Plan.

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

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

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

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

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

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

(v) any transfer of the Executive, without his express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

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

(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

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

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

(k) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with the Company and any of its Subsidiaries that actually employs the Executive.



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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, the Company shall pay to the Executive, upon the execution of a release in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two (2) times the Executive's Base Compensation, subject to required employment taxes and deductions. PSC hereby guarantees the obligations of the Company and, in the event that the Company does not satisfy its obligation hereunder within the required time period, PSC shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSC that the Company has not satisfied its obligation (or a portion thereof) to the Executive.

(b) In the event the Executive's Normal Retirement Date would occur prior to 12 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 365 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two (2) years.

5. Trust Fund. PSC sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of PSC's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that the Company (or PSC, as appropriate) shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, the Company shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as

appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d) (4) of the Code.

(b) All determinations to be made under this Section 11 shall be made by the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon the Company and the Executive. The Executive shall then have the right to determine which of the Agreement

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Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, the Company shall pay (or cause to be paid) or distribute (or

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

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and the Company shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 6 months after the Executive's Termination of Employment other than for Cause, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Termination Date had occurred on the date of the Change of Control.

13. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or the Company, or of any of their Subsidiaries that actually employ the Executive, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated

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with PSC and the Company to perform this Agreement in the same manner and to the same extent that PSC and the Company would be required to perform if no such succession or successions had taken place. Failure of PSC or the Company to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and the Company shall mean PSC and the Company, respectively, and their Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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

If to PSC or to the Company, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: President

If to the Executive, to:

Roy H. Stahl, Esq.  
1884 Black Rock Lane  
Paoli, PA 19301

or to such other names or addresses as the Company or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by the Company following a Change of

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Control, notice at the last address of the Company or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

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

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Executive and the Company's Chairman of the Company's Executive Compensation and Employee Benefits Committee, or its successor. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or bonus plans under circumstances where such plans would not provide for payment thereof in order to obtain the maximum benefits for the Executive. It is the specific intention of the parties that the provisions of this Agreement shall supersede any provisions to the contrary in such plans, and such plans shall be deemed to have been amended to correspond with this Agreement without further action by the Company or the Board.

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

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

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

20. Remedies Cumulative; No Waiver. No right conferred upon the Executive by this Agreement is intended to be exclusive of any other

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

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

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the

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Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. The Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

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

ATTEST:  
[Seal]

PHILADELPHIA SUBURBAN CORPORATION

/s/ Patricia M. Mycek  
-----  
Secretary

By: Nicholas DeBenedictis  
-----

ATTEST:  
[Seal]

PHILADELPHIA SUBURBAN WATER COMPANY

/s/ Patricia M. Mycek  
-----  
Secretary

By: /s/ Nicholas DeBenedictis  
-----

/s/ Lynn M. Templeton  
-----  
Witness

/s/ Roy H. Stahl  
-----  
Executive

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AGREEMENT

Agreement made as of the 1st day of January, 1997, by and among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Michael P. Graham (the "Executive").

WHEREAS, the Executive is presently employed by the Company, as its Senior Vice President - Finance & Treasurer; and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of the Company, the Company and PSC, for which certain of the employees of the Company, such as the Executive, provide key executive services, agree that the Executive shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a

cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, PSC is willing to guarantee that such compensation is paid to the Executive in light of his role in the management of the affairs of PSC or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total cash base salary, annual bonus and dividend equivalents (paid under the Company's Equity Compensation Plan) received by the Executive in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise, and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options or the receipt of Restricted Stock granted to the Executive under the Company's Equity Compensation Plan and its predecessors or successors, for the three calendar years (or such number of actual full calendar

years of employment, if less than three)

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immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

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Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of PSC; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Board" shall mean the board of directors of PSC. (e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except PSC or the Company or any employee benefit plan of the PSC or the Company or of any Affiliate or Associate, any Person or entity organized, appointed or established by PSC or the Company for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by PSC's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged

into or is merged with an

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unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity.

Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e) (i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. Section 2543(b)) as in effect on the date of adoption of the Plan.

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

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

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

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

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

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

(v) any transfer of the Executive, without his express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

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

(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

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



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

(k) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with the Company and any of its Subsidiaries that actually employs the Executive.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, the Company shall pay to the Executive, upon the execution of a release in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions. PSC hereby guarantees the obligations of the Company and, in the event that the Company does not satisfy its obligation hereunder within the required time period, PSC shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSC that the Company has not satisfied its obligation (or a portion thereof) to the Executive.

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(b) In the event the Executive's Normal Retirement Date would occur prior to 12 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 365 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two (2) years.

5. Trust Fund. PSC sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of PSC's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that the Company (or PSC, as appropriate) shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, the Company shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as

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appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any

Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d)(4) of the Code.

(b) All determinations to be made under this Section 11 shall be made by the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon the Company and the Executive. The Executive shall then have the right to determine which of the Agreement

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Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and the Company shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 6 months after the Executive's Termination of Employment other than for Cause, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Termination Date had occurred on the date of the Change of Control.

13. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or the Company, or of any of their Subsidiaries that actually employ the Executive, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated

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with PSC and the Company to perform this Agreement in the same manner and to the same extent that PSC and the Company would be required to perform if no such succession or successions had taken place. Failure of PSC or the Company to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and the Company shall mean PSC and the Company, respectively, and their Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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

If to PSC or to the Company, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: President

If to the Executive, to:

Mr. Michael P. Graham  
1002 Dunning Drive  
West Chester, PA 19382

or to such other names or addresses as the Company or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by the Company following a Change of

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Control, notice at the last address of the Company or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

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

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Executive and the Company's Chairman of the Company's Executive Compensation and Employee Benefits Committee, or its successor. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or

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

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

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

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

20. Remedies Cumulative; No Waiver. No right conferred upon the Executive by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Executive in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

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

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the

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Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. The Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

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

ATTEST:  
[Seal]

PHILADELPHIA SUBURBAN CORPORATION

/s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

-----  
Secretary

ATTEST:  
[Seal]

/s/ Patricia M. Mycek  
-----

Secretary

/s/ Leon K. Chain  
-----

Witness

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PHILADELPHIA SUBURBAN WATER COMPANY

By: /s/ Roy H. Stahl  
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/s/ Michael P. Graham  
-----

Executive

AGREEMENT

Agreement made as of the 1st day of January, 1997, by and among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Richard R. Riegler (the "Executive").

WHEREAS, the Executive is presently employed by the Company, as its Senior Vice President - Operations; and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of the Company, the Company and PSC, for which certain of the employees of the Company, such as the Executive, provide key executive services, agree that the Executive shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a

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cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, PSC is willing to guarantee that such compensation is paid to the Executive in light of his role in the management of the affairs of PSC or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total cash base salary, annual bonus and dividend equivalents (paid under the Company's Equity Compensation Plan) received by the Executive in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of the Company, and its Subsidiaries or Affiliates, or otherwise, and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options or the receipt of Restricted Stock granted to the Executive under the Company's Equity Compensation Plan and its predecessors or successors, for the three calendar years (or such number of actual full calendar years of employment, if less than three)

immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of PSC; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Board" shall mean the board of directors of PSC. (e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except PSC or the Company or any employee benefit plan of the PSC or the Company or of any Affiliate or Associate, any Person or entity organized, appointed or established by PSC or the Company for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by PSC's shareholders, of at least seventy-five percent of the directors who were not directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged



into or is merged with an

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unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity.

Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. ss.2543(b)) as in effect on the date of adoption of the Plan.

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

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

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

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

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

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

(v) any transfer of the Executive, without his express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

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

(h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

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

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

(k) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with the Company and any of its Subsidiaries that actually employs the Executive.

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

### 3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, the Company shall pay to the Executive, upon the execution of a release in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions. PSC hereby guarantees the obligations of the Company and, in the event that the Company does not satisfy its obligation hereunder within the required time period, PSC shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSC that the Company has not satisfied its obligation (or a portion thereof) to the Executive.

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(b) In the event the Executive's Normal Retirement Date would occur prior to 12 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 365 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two (2) years.

5. Trust Fund. PSC sponsors an irrevocable trust fund pursuant to a trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of PSC's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that the Company (or PSC, as appropriate) shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, the Company shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as

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appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any

Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d)(4) of the Code.

(b) All determinations to be made under this Section 11 shall be made by the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon the Company and the Executive. The Executive shall then have the right to determine which of the Agreement

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Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and the Company shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f)(2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 6 months after the Executive's Termination of Employment other than for Cause, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Termination Date had occurred on the date of the Change of Control.

13. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or the Company, or of any of their Subsidiaries that actually employ the Executive, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated

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with PSC and the Company to perform this Agreement in the same manner and to the same extent that PSC and the Company would be required to perform if no such succession or successions had taken place. Failure of PSC or the Company to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and the Company shall mean PSC and the Company, respectively, and their Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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

If to PSC or to the Company, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: President

If to the Executive, to:

Mr. Richard R. Riegler  
2592 Sibel Circle  
Lansdale, PA 19446

or to such other names or addresses as the Company or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by the Company following a Change of

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Control, notice at the last address of the Company or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

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

16. Contents of Agreement, Amendment and Assignment. This Agreement supersedes all prior agreements, sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment executed by the Executive and the Company's Chairman of the Company's Executive Compensation and Employee Benefits Committee, or its successor. The provisions of this Agreement may require a variance from the terms and conditions of certain compensation or

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

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

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

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

20. Remedies Cumulative; No Waiver. No right conferred upon the Executive by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Executive in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

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

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the

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Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. The Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

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

ATTEST:  
[Seal]

PHILADELPHIA SUBURBAN CORPORATION

/s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

-----  
Secretary

ATTEST:  
[Seal]

/s/ Patricia M. Mycek  
-----  
Secretary

/s/ Harriet A. Beeson  
-----  
Witness

-----  
PHILADELPHIA SUBURBAN WATER COMPANY

By: /s/ Roy H. Stahl  
-----

/s/ Richard R. Riegler  
-----  
Executive

AGREEMENT

Agreement made as of the 1st day of January, 1997, by and among Philadelphia Suburban Water Company, a Pennsylvania corporation (the "Company"), Philadelphia Suburban Corporation, a Pennsylvania corporation ("PSC"), and Morrison Coulter (the

"Executive").

WHEREAS, the Executive is presently employed by the Company, as its Senior Vice President - Production; and

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

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

WHEREAS, in order to induce the Executive to remain in the employ of the Company, the Company and PSC, for which certain of the employees of the Company, such as the Executive, provide key executive services, agree that the Executive shall receive the compensation set forth in this Agreement in the event his employment with the Company is terminated subsequent to a "Change of Control" (as defined in Section 1 hereof) of PSC as a

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cushion against the financial and career impact on the Executive of any such Change of Control; and

WHEREAS, PSC is willing to guarantee that such compensation is paid to the Executive in light of his role in the management of the affairs of PSC or its subsidiaries;

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

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

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

(b) "Base Compensation" shall mean the average of the total cash base salary, annual bonus and dividend equivalents (paid under the Company's Equity Compensation Plan) received by the Executive in all capacities with the Company, and its Subsidiaries or Affiliates, as reported for Federal income tax purposes on Form W-2, together with any amounts the payment of which has been deferred by the Executive under any deferred compensation plan of the Company, and its



Subsidiaries or Affiliates, or otherwise, and any and all salary reduction authorized amounts under any of the benefit plans or programs of the Company, and its Subsidiaries or Affiliates, but excluding any amounts attributable to the exercise of stock options or the receipt of Restricted Stock granted to the Executive under the Company's Equity Compensation Plan and its predecessors or successors, for the three calendar years (or such number of actual full calendar years of employment, if less than three)

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immediately preceding the calendar year in which occurs a Change of Control or the Executive's Termination Date, whichever period produces the higher amount.

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

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Associates) has any agreement, arrangement or understanding (whether or not in writing) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in the proviso to clause (ii) above) or disposing of any voting securities of PSC; provided, however, that nothing in this Section 1(c) shall cause a Person engaged in business as an underwriter of securities to be the "Beneficial Owner" of any securities acquired through such Person's participation in good faith in a firm commitment underwriting until the expiration of forty days after the date of such acquisition.

(d) "Board" shall mean the board of directors of PSC. (e) "Change of Control" shall mean:

(i) any Person (including any individual, firm, corporation, partnership or other entity except PSC or the Company or any employee benefit plan of the PSC or the Company or of any Affiliate or Associate, any Person or entity organized, appointed or established by PSC or the Company for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the Beneficial Owner in the aggregate of 20% or more of the Common Stock of PSC then outstanding;

(ii) during any twenty-four month period, individuals who at the beginning of such period constitute the Board cease for any reason to constitute a majority thereof, unless the election, or the nomination for election by PSC's shareholders, of at least seventy-five percent of the directors who were not

directors at the beginning of such period was approved by a vote of at least seventy-five percent of the directors in office at the time of such election or nomination who were directors at the beginning of such period; or

(iii) there occurs a sale of substantially all of the assets of PSC or its liquidation is approved by a majority of its shareholders or PSC is merged into or is merged with an

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unrelated entity such that following the merger the shareholders of PSC no longer own more than 51% of the resultant entity. Notwithstanding anything in this Section 1(e) to the contrary, a Change of Control shall not be deemed to have taken place under clause (e)(i) above if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. ss.2543(b)) as in effect on the date of adoption of the Plan.

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

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

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

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

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

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

(v) any transfer of the Executive, without his express written consent, to a location which is outside the Bryn Mawr, Pennsylvania area by more than 50 miles, other than on a temporary basis (less than 6 months); or

(vi) the Executive being required to undertake business travel to an extent substantially greater than the Executive's business travel obligations immediately prior to the Change of Control. (h) "Normal Retirement Date" shall mean the first day of the calendar month coincident with or next following the Executive's 65th birthday.

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

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

(k) "Termination of Employment" shall mean the termination of the Executive's actual employment relationship with the Company and any of its Subsidiaries that actually employs the Executive.

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

3. Severance Compensation upon Termination.

(a) Subject to the provisions of Section 11 hereof, in the event of the Executive's involuntary Termination of Employment for any reason other than Cause or in the event of a Good Reason Termination, in either event within two years after a Change of Control, the Company shall pay to the Executive, upon the execution of a release in the form required by the Company of its terminating executives prior to the Change of Control, within 15 days after the Termination Date (or as soon as possible thereafter in the event that the procedures set forth in Section 11(b) hereof cannot be completed within 15 days), an amount in cash equal to two times the Executive's Base Compensation, subject to required employment taxes and deductions. PSC hereby guarantees the obligations of the Company and, in the event that the Company does not satisfy its obligation hereunder within the required time period, PSC shall pay or cause to be paid all compensation, benefits and other amounts remaining due to the Executive upon prompt written notice to PSC that the Company has not satisfied its obligation (or a portion thereof) to the Executive.

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(b) In the event the Executive's Normal Retirement Date would occur prior to 12 months after the Termination Date, the aggregate cash amount determined as set forth in (a) above shall be reduced by multiplying it by a fraction, the numerator of which shall be the number of days from the Termination Date to the Executive's Normal Retirement Date and the denominator of which shall be 365 days. In the event the Termination Date occurs after the Executive's Normal Retirement Date, no payments shall be made under this Section 3.

4. Other Payments. The payment due under Section 3 hereof shall be in addition to and not in lieu of any payments or benefits due to the Executive under any other plan, policy or program of the Company, and its Subsidiaries or Affiliates. In addition, the Executive shall be entitled to a continuation of health, dental, life and welfare benefits, excluding disability benefits, otherwise provided to senior level executives or employees generally, as the same may be amended for all such individuals from time to time, for the period of two (2) years.

5. Trust Fund. PSC sponsors an irrevocable trust fund pursuant to a

trust agreement to hold assets to satisfy its obligations to the Executive under this Agreement. Funding of such trust fund shall be subject to the discretion of PSC's President, as set forth in the agreement pursuant to which the fund has been established.

6. Enforcement.

(a) In the event that the Company (or PSC, as appropriate) shall fail or refuse to make payment of any amounts due the Executive under Sections 3 and 4 hereof within the respective time periods provided therein, the Company shall pay to the Executive, in addition to the payment of any other sums provided in this Agreement, interest, compounded daily, on any amount remaining unpaid from the date payment is required under Section 3 or 4, as

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appropriate, until paid to the Executive, at the rate from time to time announced by PNC Bank as its "prime rate" plus 1%, each change in such rate to take effect on the effective date of the change in such prime rate.

(b) It is the intent of the parties that the Executive not be required to incur any expenses associated with the enforcement of his rights under this Agreement by arbitration, litigation or other legal action because the cost and expense thereof would substantially detract from the benefits intended to be extended to the Executive hereunder. Accordingly, the Company shall pay the Executive on demand the amount necessary to reimburse the Executive in full for all reasonable expenses (including all attorneys' fees and legal expenses) incurred by the Executive in enforcing any of the obligations of the Company under this Agreement.

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

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

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

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

11. Certain Reduction of Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (a "Payment"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate present value of amounts payable or distributable to or for the benefit of the Executive pursuant to this Agreement (such payments or

distributions pursuant to this Agreement are hereinafter referred to as "Agreement Payments") shall be reduced (but not below zero) to the Reduced Amount. The "Reduced Amount" shall be an amount expressed in present value which maximizes the aggregate present value of Agreement Payments without causing any Payment to be subject to the loss of deduction under Section 280G of the Code. For purposes of this Section 11, present value shall be determined in accordance with Section 280G(d) (4) of the Code.

(b) All determinations to be made under this Section 11 shall be made by the Company's independent public accountant immediately prior to the Change of Control (the "Accounting Firm"), which firm shall provide its determinations and any supporting calculations both to the Company and the Executive within 10 days of the Termination Date. Any such determination by the Accounting Firm shall be binding upon the Company and the Executive. The Executive shall then have the right to determine which of the Agreement

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Payments shall be eliminated or reduced in order to produce the Reduced Amount in accordance with the requirements of this Section. Within five days after this determination, the Company shall pay (or cause to be paid) or distribute (or cause to be distributed) to or for the benefit of the Executive such amounts as are then due to the Executive under this Agreement.

(c) As a result of the uncertainty in the application of Section 280G of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Agreement Payments, as the case may be, will have been made by the Company which should not have been made ("Overpayment") or that additional Agreement Payments which have not been made by the Company could have been made ("Underpayment"), in each case, consistent with the calculations required to be made hereunder. Within two years after the Termination of Employment, the Accounting Firm shall review the determination made by it pursuant to the preceding paragraph and the Company shall cooperate and provide all information necessary for such review. In the event that the Accounting Firm determines that an Overpayment has been made, any such Overpayment shall be treated for all purposes as a loan to the Executive which the Executive shall repay to the Company together with interest from the date of payment under this Agreement at the applicable Federal rate provided for in Section 7872(f) (2) of the Code (the "Federal Rate"); provided, however, that no amount shall be payable by the Executive to the Company if and to the extent such payment would not reduce the limit on the amount that is deductible under Section 280G of the Code. In the event that the Accounting Firm determines that an Underpayment has occurred, any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive together with interest from the date of payment under this Agreement at the Federal Rate.

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(d) All of the fees and expenses of the Accounting Firm in performing the determinations referred to in subsections (b) and (c) above shall be borne solely by the Company. The Company agrees to indemnify and hold harmless the Accounting Firm of and from any and all claims, damages and expenses resulting from or relating to its determinations pursuant to subsections (b) and (c) above, except for claims, damages or expenses resulting from the gross negligence or willful misconduct of the Accounting Firm.

12. Term of Agreement. The term of this Agreement shall be indefinite until the Company notifies the Executive in writing that this Agreement will not be renewed at least sixty days prior to the proposed termination; provided, however, that (i) after a Change of Control during the term of this Agreement, this Agreement shall remain in effect until all of the obligations of the parties hereunder are satisfied or have expired, and (ii) this Agreement shall terminate if, prior to a Change of Control, the employment of the Executive with the Company or any of its Subsidiaries, as the case may be, shall terminate for any reason; provided, however, that if a Change of Control occurs within 6

months after the Executive's Termination of Employment other than for Cause, the Executive shall be entitled to all of the terms and conditions of this Agreement as if the Termination Date had occurred on the date of the Change of Control.

13. Successor Company. PSC shall require any successor or successors (whether direct or indirect, by purchase, merger or otherwise) to all or substantially all of the business and/or assets of PSC or the Company, or of any of their Subsidiaries that actually employ the Executive, by agreement in form and substance satisfactory to the Executive, to acknowledge expressly that this Agreement is binding upon and enforceable against the successor or successors, in accordance with the terms hereof, and to become jointly and severally obligated

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with PSC and the Company to perform this Agreement in the same manner and to the same extent that PSC and the Company would be required to perform if no such succession or successions had taken place. Failure of PSC or the Company to notify the Executive in writing as to such successorship, to provide the Executive the opportunity to review and agree to the successor's assumption of this Agreement or to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, PSC and the Company shall mean PSC and the Company, respectively, and their Subsidiaries as hereinbefore defined and any such successor or successors to their business and/or assets, jointly and severally.

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

If to PSC or to the Company, to:

Philadelphia Suburban Corporation  
762 W. Lancaster Avenue  
Bryn Mawr, PA 19010-3489  
Attention: President

If to the Executive, to:

Mr. Morrison Coulter  
P.O. Box 294  
Paoli, PA 19301

or to such other names or addresses as the Company or the Executive, as the case may be, shall designate by notice to the other party hereto in the manner specified in this Section; provided, however, that if no such notice is given by the Company following a Change of

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Control, notice at the last address of the Company or to any successor pursuant to Section 13 hereof shall be deemed sufficient for the purposes hereof. Any such notice shall be deemed delivered and effective when received in the case of personal delivery, five days after deposit, postage prepaid, with the U.S. Postal Service in the case of registered or certified mail, or on the next business day in the case of overnight express courier service.

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

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

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

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

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

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

20. Remedies Cumulative; No Waiver. No right conferred upon the Executive by this Agreement is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and shall be in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Executive in exercising any right, remedy or power hereunder or existing at law or in equity shall be construed as a waiver thereof.

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

22. Arbitration. In the event of any dispute under the provisions of this Agreement other than a dispute in which the sole relief sought is an equitable remedy such as an injunction, the parties shall be required to have the dispute, controversy or claim settled by arbitration in Bryn Mawr, Pennsylvania, in accordance with the National Rules for the

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Settlement of Employment Disputes of the American Arbitration Association, before one arbitrator who shall be an executive officer or former executive officer of a publicly traded corporation, selected by the parties. Any award entered by the arbitrator shall be final, binding and nonappealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrator shall have no authority to modify any provision of this Agreement or to award a remedy for a dispute involving this Agreement other than a benefit specifically provided under or by virtue of the Agreement. The Company shall be responsible for all of the fees of the American Arbitration Association and the arbitrator and any expenses relating to the conduct of the arbitration (including reasonable attorneys' fees and expenses).

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

ATTEST:

PHILADELPHIA SUBURBAN CORPORATION

[Seal]

/s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

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Secretary

ATTEST:

PHILADELPHIA SUBURBAN WATER COMPANY

[Seal]

/s/ Patricia M. Mycek

By: /s/ Roy H. Stahl

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Secretary

/s/ Gerry Kelly

/s/ Morrison Coulter

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Witness

Executive



PHILADELPHIA SUBURBAN CORPORATION  
AMENDED AND RESTATED

EXECUTIVE DEFERRAL PLAN

In recognition of the services provided by certain key employees, the Board of Directors of Philadelphia Suburban Corporation adopted the Plan to make additional retirement benefits available to those individuals. Pursuant to its authority in Article 10, the Committee hereby amends and restates the Plan, effective January 1, 1995, as follows:

ARTICLE 1

Definitions

- 1.1 "Account" means a bookkeeping account established pursuant to Section 3.1 which reflects the amount standing to the credit of the Participant under the Plan.
- 1.2 "Affiliated Company" means any affiliate or subsidiary of the Company.
- 1.3 "Base Salary" means the annual amount of base salary and wages paid by the Employer to an Employee for any calendar year of employment, but excluding all Employer contributions to benefit plans and all other forms of compensation.
- 1.4 "Beneficiary" means the person(s) designated by a Participant to receive any benefits payable under this Plan subsequent to the Participant's death. The Committee shall provide a form for this purpose. In the event a Participant has not filed a Beneficiary designation with the Company, the Beneficiary shall be the Participant's estate.
- 1.5 "Board" means the Board of Directors of the Company.
- 1.6 "Bonus" shall mean bonus compensation due to the Employee, if any, under the Company's Incentive Compensation Plan.
- 1.7 "Code" means the Internal Revenue Code of 1986, as amended.
- 1.8 "Committee" means the Compensation Committee of the Board which shall act for the Company in making decisions and performing specified duties with respect to the Plan.
- 1.9 "Company" means Philadelphia Suburban Corporation and its successors.
- 1.10 "Effective Date" means January 1, 1995.
- 1.11 "Employee" means any individual employed by the Employer as an officer, senior manager or other highly compensated employee, as designated by the Committee,

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on a regular, full-time basis (in accordance with the personnel policies and practices of the Employer).

- 1.12 "Employer" means the Company and/or any Participating Employer, either collectively or individually, as the context requires.
- 1.13 "Participant" means any Employee who satisfies the eligibility requirements set forth in Article 2. In the event of the death or

incompetency of a Participant, the term shall mean his personal representative or guardian. An individual shall remain a Participant until that individual has received full distribution of any amount credited to the Participant's Account.

- 1.14 "Participating Employer" means any Affiliated Company which is designated by the Board as a Participating Employer under the Plan and whose designation as such has become effective upon acceptance of such status by the board of directors of the Affiliated Company. A Participating Employer may revoke its acceptance of such designation at any time, but until such acceptance has been revoked, all the provisions of the Plan and amendments thereto shall apply to the Employees of the Participating Employer. In the event the designation as a Participating Employer is revoked by the board of directors of an Affiliated Company, the Plan shall be deemed terminated only with respect to such Participating Employer.
- 1.15 "Plan" means the Philadelphia Suburban Corporation Amended and Restated Executive Deferral Plan as the same is set forth herein, and as it may be amended from time to time.
- 1.16 "Plan Year" means the calendar year.
- 1.17 "Separates from Employment" means the Employee's termination of employment from the Employer for any reason. Except as otherwise provided herein, a Separation from Employment shall be deemed to have occurred on the last day of the Employee's service to the Employer and shall be determined without reference to any compensation continuation arrangement or severance benefit arrangement that may be applicable.
- 1.18 "Thrift Plan" means the Philadelphia Suburban Corporation Thrift Plan, as it may be amended from time to time.

## ARTICLE 2

### Eligibility

- 2.1 Each Employee shall be eligible to participate in the Plan on such date as is specified by the Committee. A list of the individuals participating in the Plan on the Effective Date is attached hereto as Exhibit A; such list may be modified from time to time by the Committee.

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## ARTICLE 3

### Benefits

- 3.1 The Employer shall create and maintain on its books an Account for each Participant to which it shall credit amounts contributed to the Plan pursuant to this Article 3. The Employer shall also credit each Participant's Account with deemed earnings for each Plan Year in accordance with the provisions of Article 8 hereof.
- 3.2 Prior to the end of the first quarter of any Plan Year, or within 30 days after first being eligible to participate hereunder, a Participant may elect to have the Employer credit to the Participant's Account (as a result of payroll reduction) an amount equal to any whole percentage or dollar amount of the Participant's Bonus, if any, to be earned for such Plan Year. Prior to the first day of any calendar month in a Plan Year, a Participant may also elect to have the Employer contribute to the Participant's Account (as a result of payroll reduction) an amount equal to any whole percentage or dollar amount of the Participant's Base Salary for services to be rendered during the balance of such Plan Year. If an election is made to have a contribution credited to the Participant's Account for a Plan Year, the credit shall be made at the

time that such amount would otherwise have been paid and shall reduce the Participant's Bonus or Base Salary, as applicable with respect to that Plan Year by a corresponding amount. The Committee may establish minimum or maximum amounts that may be deferred under this Section and may change such standards from time to time. Any such limits shall be communicated by the Committee to the Participants prior to the commencement of a Plan Year.

- 3.3 Any elections under this Article shall be made in writing on such form and at such time as the Committee shall specify consistent with the provisions of Section 3.2. Any election by a Participant pursuant to this Section 3.3 shall be irrevocable as to any credits made to a Participant's Account in a Plan Year and may not be modified in any respect.
- 3.4 For each Plan Year, the Employer shall also credit to the Participant's Account an amount equal to the excess of the contribution that would have been made by the Employer under the Thrift Plan on behalf of the Participant if it were not for the limitations imposed by the Code over the amount actually contributed by the Employer to the Thrift Plan on behalf of the Participant. In addition, the Employer may make an additional credit to each Participant's Account for any Plan Year in such amount as shall be approved by the Committee. Such credits shall be deemed to have occurred at the time such amounts would otherwise have been contributed to the Thrift Plan or at such other time as is specified by the Employer.

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#### ARTICLE 4

##### Distributions to Participants

- 4.1 A Participant's benefit under the Plan shall be distributed in one lump sum, or, if at least \$25,000 is credited to a Participant's Account, in 12 annual installments (with the balance to be distributed continuing to be credited with deemed earnings for each subsequent Plan Year in accordance with the provisions of Article 8 hereof) equal to 1\12, 1\11, 1\10, 1\9, 1\8, 1\7, 1\6, 1\5, 1\4, 1\3, 1\2, and 1\1 of the balance then credited to the Participant's Account, and shall be paid, or commence, as soon as practicable following the completion of the valuation of the Participant's Account for the last day of the month in which the Participant Separates from Employment; provided however, that each Participant shall make an election, in the form and manner specified by the Committee, as to the form of payment on or before the end of the year preceding the year of payment. If no such election has been made by the first day of the year in which the Participant Separates from Employment then distribution shall be delayed and shall be made, or commence, as soon as practicable after the first day of the year following the year in which the Participant Separates from Employment. Notwithstanding anything herein to the contrary, in the event that such a Participant fails to make an election, distribution shall be in the form of one lump sum payment paid as soon as practicable after the first day of the year following the date the Participant Separates from Employment.
- 4.2 In the event that a Participant incurs a "significant financial hardship" while employed by the Employer, as determined by the Committee, the Participant may apply, in writing, for a withdrawal of all or a portion of the balance credited to the Participant's Account in the form of a lump sum in cash. All determinations by the Committee regarding the existence of a financial hardship shall be made in accordance with the provisions of the Company's Thrift Plan dealing with whether a financial hardship exists for purposes of permitting withdrawals thereunder. The Committee shall determine whether to permit such a withdrawal and, based upon the Participant's application, the amount necessary to satisfy that hardship, which shall be distributed in a single sum as soon as practicable after the Committee's

determination.

## ARTICLE 5

### Death Benefit

- 5.1 In the event of the death of a Participant prior to the payment of the full benefit due pursuant to Article 4, the Participant's Beneficiary shall receive a lump sum distribution equal to the balance of the Participant's Account on the date of death. The benefit payment to the Beneficiary will be made as soon as practicable following the completion of the valuation of the deceased Participant's Account. In the event of the death of a Participant after payment of a benefit has

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commenced in installments, pursuant to Section 4.1 hereof, the Participant's Beneficiary shall receive the payments due following the Participant's death; provided, however, that prior to receiving the next annual installment, the Beneficiary may elect to receive, on the next payment date, in full satisfaction of the Beneficiary's entitlement under the Plan, a lump sum distribution equal to the remaining balance then credited to the Participant's Account.

## ARTICLE 6

### Vesting

- 6.1 The balance credited to a Participant's Account attributable to Section 3.2 shall be fully vested at all times. Credits attributable to Section 3.4 shall vest at the same time as the Participant's accrued benefit under the terms of the Retirement Plan for Employees of Philadelphia Suburban Corporation and Subsidiaries.

## ARTICLE 7

### Funding

- 7.1 The Board may, but shall not be required to, authorize the establishment of a trust by the Employer to serve as the funding vehicle for the benefits described in Article 3 hereof. In any event, the Employer's obligation hereunder shall constitute a general, unsecured obligation, payable solely out of its general assets, and no Participant shall have any right to any specific assets of the Employer. In addition, it is the intention of the Employer that the Plan be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

## ARTICLE 8

### Investments

- 8.1 Except as provided otherwise below, the balance credited to a Participant's Account shall be deemed to be invested in an interest bearing instrument which shall provide for interest to be credited and compounded monthly at an effective rate equal to 50 basis points in excess of the prime commercial lending rate established by Mellon Bank N.A., or such other bank determined by the Committee to be the Company's primary bank as of the beginning of any Plan Year, as in effect on the 15th day of each month (or if such day is a non-business day, on the first business day thereafter) during which there is a positive balance in a Participant's Account. Interest shall be applied to the average balance of each Participant's Account during the prior 30-day period. For any Plan Year, the

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Committee may determine to make available, and announce to the Participants the procedure to elect, other deemed forms of investment for the amounts credited to the Accounts. Notwithstanding anything herein to the contrary, the Company may, but shall not be required to, actually invest any funds in the forms of investment made available hereunder and, in any event, any such investments shall at all times remain the property of the Company. Any such other deemed forms of investment shall be described on Exhibit A hereto, as in effect and amended from time to time, and shall be incorporated herein by reference.

#### ARTICLE 9

##### Administration

- 9.1 The Committee shall have full power and authority to interpret the Plan, to prescribe, amend and rescind any rules, forms and procedures as it deems necessary or appropriate for the proper administration of the Plan and to make any other determinations and to take any other such actions as it deems necessary or advisable in carrying out its duties under the Plan. All action taken by the Committee arising out of or in connection with, the administration of the Plan or any rules adopted thereunder, shall in each case, lie within its sole discretion, and shall be final, conclusive and binding upon the Employer, the Board, all Employees, all beneficiaries of Employees and all persons and entities having an interest therein.
- 9.2 Members of the Committee shall serve without compensation for their services unless otherwise determined by the Board. All expenses of administering the Plan shall be paid by the Employer.
- 9.3 The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees) and liability (including any amounts paid in settlement of any claim or any other matter with the consent of the Board) arising from any act or omission of such member, except when the same is due to gross negligence or willful misconduct.
- 9.4 Any decisions, actions or interpretations to be made under the Plan by the Company, Employer or the Committee (other than in the administration of the Plan) shall be made in its sole discretion, not in any fiduciary capacity and need not be uniformly applied to similarly situated individuals and shall be final, binding and conclusive on all persons interested in the Plan.

#### ARTICLE 10

##### Amendment

- 10.1 The Plan may be amended by the Committee at any time and from time to time all without prior notice to any person or entity; provided, however, that no such

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amendment shall have the effect of divesting a Participant of the benefit which the Participant would otherwise receive hereunder at the time the amendment is adopted.

#### ARTICLE 11

##### Termination

11.1 Continuance of the Plan is completely voluntary and is not assumed as a contractual obligation of the Employer. The Committee, acting on behalf of the Employer, shall have the right to terminate the Plan in whole or in part at any time all without prior notice to any person or entity; provided, however, that such termination shall not have the effect of divesting a Participant of the benefit which the Participant would otherwise receive hereunder at the time of the termination.

## ARTICLE 12

### Miscellaneous

- 12.1 Nothing contained herein (a) shall be deemed to exclude a Participant from any compensation, bonus, pension, insurance, severance pay or other benefit to which he otherwise is or might become entitled as an Employee or (b) shall be construed as conferring upon an Employee the right to continue in the employ of the Employer.
- 12.2 Any amounts payable hereunder shall not be deemed salary or other compensation to a Participant for the purposes of computing benefits to which the Participant may be entitled under any other arrangement established by the Employer for the benefit of its employees.
- 12.3 The rights and obligations created hereunder shall be binding on a Participant's heirs, executors and administrators and on the successors and assigns of the Employer.
- 12.4 The masculine pronoun whenever used shall include the feminine and the singular shall be construed as the plural, where applicable.
- 12.5 The provisions of the Plan shall be construed and applied under the laws of the Commonwealth of Pennsylvania.
- 12.6 The rights of any Participant under this Plan are personal and may not be assigned, transferred, pledged or encumbered. Any attempt to do so shall be void. In addition, a Participant's rights hereunder are not subject, in any manner, to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Participant or the Participant's Beneficiary.

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- 12.7 If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not effect any other provisions hereof and the Plan shall be construed and enforced as if such provisions had not been included.
- 12.8 The headings and captions herein are provided for convenience only, and shall not be construed as part of the Plan, and shall not be employed in the construction of the Plan.
- 12.9 Any benefit payable to or for the benefit of a payee who is a minor, an incompetent person, or is otherwise incapable of receipting therefore shall be deemed paid when paid to such person's guardian or to the party providing, or a reasonably appearing to provide, the care for such person, and such payment shall fully discharge the Employer, the Committee, the Board and all other parties with respect thereto.

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Effective February 1, 1995, the following additional deemed investments may be elected by a Participant:

1. Company Stock - A Participant may elect, at the time and in the manner specified by the Committee, to direct that any portion or all of the amounts elected to be deferred under Section 3.2 of the Plan be deemed invested in common shares of Philadelphia Suburban Corporation. The purchase price for shares deemed purchased or sold under the Plan shall, except as otherwise provided in the next sentence, be the sum of (a) 95% of the average of the high and the low price for common shares of the Company as reported on the New York Stock Exchange for the date an amount to be invested in such shares is credited to the Participant's Account under Article 3 (or, if no such price is reported for that date, as of the next preceding date) or deemed sold from the Account for purposes of the distribution to be made under Article 4 or Article 5, as applicable and (b) any transfer, excise or similar tax that would be imposed on the transaction pursuant to which a share would be purchased or sold. The purchase price for shares deemed purchased with dividends credited to shares shall be an amount equal to 95% of the average of the high and low sales price for such shares as reported in the NYSE-Composite Transactions for each of the five trading days immediately preceding the date that an amount to be invested in such shares is credited to the Participant's Account under Article 3 .

2. Life Insurance - A Participant (who is insurable) may elect, at the time and in the manner specified by the Committee, to direct that any portion or all of the amounts elected to be deferred under Section 3.2 of the Plan be deemed invested in a life insurance contract on the Participant's life with the amount of the death benefit determined by the Committee (taking into account, among other things the Participant's insurability) and permitting the Participant to direct the investment of any funds deemed invested under the insurance contract in excess of that necessary to keep the death benefit in force. Upon a distribution event under Article 4, and notwithstanding anything in the Plan to the contrary, the Committee may determine to distribute an insurance contract to the Participant in the event that the Company had determined to purchase such a life insurance contract in light of the Participant's election hereunder. If the Company determines to purchase a contract hereunder, it may permit the Participant to designate a beneficiary under the contract to receive the death benefit in the event of the Participant's death prior to a distribution event under Article 4, which shall be taken into account in determining whether any additional sums are owed under Article 5.

PHILADELPHIA SUBURBAN CORPORATION

DEFERRED COMPENSATION PLAN MASTER TRUST AGREEMENT

THIS TRUST AGREEMENT is made and entered into as of this 31st day of December, 1996 by and between Philadelphia Suburban Corporation, a corporation organized and existing under the laws of the Commonwealth of Pennsylvania (the "Company"), and PNC Bank, National Association, a banking association organized and existing under the laws of the Commonwealth of Pennsylvania (the "Trustee").

WITNESSETH:

WHEREAS, the Company and each Affiliated Company which is designated by the Board of Directors as a Participating Employer have established or may hereafter establish certain non-qualified employee benefit plans and programs (hereinafter referred to collectively as the "Plans"), listed on Exhibit A attached hereto as of the date hereof or, thereafter, added if designated by the President of the Company (the "President"); and

WHEREAS, the Plans provide for the Company to pay all benefits from its general revenues and assets;

WHEREAS, the Company wishes to establish separate irrevocable trust funds (individually, a "Trust" and collectively, the "Trusts") with respect to designated participants in the Plans, though, prior to a Change of Control, as defined in Section 16.3 hereof, any such Trust may not necessarily hold sufficient assets to satisfy all of the benefits to be provided under the Plans;

WHEREAS, the Company also wishes to establish a Trust fund to provide a source for payment of any fees, including legal fees, incurred by the Trustee in the administration of the Trusts or by participants in enforcing their rights hereunder (the "Fee Trust") and a Trust fund to provide a source of payment of any benefits under a Plan to the extent that the assets of an individual Trust established for a Participant are insufficient to provide all benefits due (the "Shortfall Trust");

WHEREAS, the Company wishes to contribute to the Trusts assets, either on the date hereof or thereafter as determined by the President, that shall be held therein, to serve as a source of funds to assist it in meeting its liabilities under the Plans, subject to the claims of Company's creditors in the event of Company's Insolvency, as herein defined, until paid to Plan participants and their beneficiaries in such manner and at such times as specified hereunder or in the Plans;

WHEREAS, contributions to the Trusts shall be held by the Trustee and invested, reinvested and distributed in accordance with the provisions of this Trust Agreement;

WHEREAS, each Trust established by this Trust Agreement is intended to be a "grantor trust" with the result that the corpus and income of the Trusts are treated as assets and income of the Company pursuant to Sections 671 through 679 of the Internal Revenue Code of 1986, as amended (the "Code");

WHEREAS, the Company has appointed the Pension Committee of the Board of Directors (the "Committee"), to administer the Trusts established hereunder and otherwise to act on behalf of the Company in a non-fiduciary capacity.

NOW, THEREFORE, the parties do hereby establish the Trusts and



agree that the Trusts shall be comprised, held and disposed of as follows:

## ARTICLE I

### ESTABLISHMENT

1.1 The Company hereby establishes with the Trustee a separate, and subject to Section 16.2 hereof, irrevocable Trust on behalf of each participant in the Plans designated by the Committee (the "Participant") pursuant to a separate agreement or agreements that shall be expressly incorporated in and made a part of this Trust Agreement (each such agreement to be attached hereto as part of Exhibit B) as well as the Shortfall Trust. Each separate Trust shall be governed by the terms of this Trust Agreement. Each Trust is intended to be exempt from substantially all of the provisions of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA") by reason of the provisions of Sections 201(2), 301(3) and 401(1) thereof, as applicable, and the Company shall immediately notify the Trustee should such exempt status change for any reason.

1.2 The Trust shall consist of such sums of money and other property acceptable to the Trustee as shall be paid or delivered to the Trustee by the Company immediately following the date hereof or from time to time in the future, as determined by the President. The Fee Trust and the Shortfall Trust shall be irrevocable and each other Trust, subject to the provisions of Section 16.2 hereof, shall be irrevocable for the Participant for which it is established. Except as provided in Sections 4.2, 4.3 and 16.2 hereof, the Company shall have no right to direct the Trustee to return or divert any Trust assets before the payment of all benefits under the Plans to the Participant. All such money and other property, all in vestments and reinvestment made therewith or proceeds thereof and all earnings and profits (less losses) thereon, less all payments and charges as authorized herein, for each of the Trusts are hereinafter referred to as the "Trust Fund". The Trust Fund shall be held by the Trustee and shall be dealt with in accordance with the provisions of this Trust Agreement. All Trust Funds created hereunder shall be treated as a single trust fund for purposes of investing the assets of each Trust Fund (the "Fund") but the Trustee shall maintain, or cause to be maintained records sufficient to determine the interest of each Trust Fund in the Fund.

1.3 Within 90 days of the date hereof, the Company shall fund each Trust Fund (other than the Fee Trust) with sufficient assets to provide the benefits due, through December 31, 1995, to the Participant for whose benefit the Trust Fund has been established. Thereafter, and subject to the provisions of Article XVI, the Company may contribute such sums of money or property to the Trust Fund, from time to time, as the President determines appropriate, in the President's sole discretion, without any requirement that the amount of such contributions be sufficient to meet the minimum funding standards imposed by ERISA which are not applicable to contributions under the Plans.

1.4 The principal of each Trust Fund and the Fund, and any earnings thereon shall be held separate and apart from other funds of Company and shall be used exclusively for the uses and purposes of Participants and general creditors as herein set forth. Participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust Fund. Any rights created under the Plans and this Trust Agreement shall be mere unsecured contractual rights of Participants and their beneficiaries against the Company. Any assets held by the Fund will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 4.2 herein.

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## ARTICLE II

### TRUSTEE ACCEPTANCE

2.1 The Trustee accepts each Trust established under this Trust Agreement on the terms and subject to the provisions set forth herein, and it agrees to discharge and perform fully and faithfully all of the duties and obligations imposed upon it under this Trust Agreement.

2.2 The Trustee shall not be responsible for the proper operation of the Plans.

### ARTICLE III

#### PLANS IN RELATION TO TRUST AGREEMENT

3.1 A copy of each of the Plans is attached hereto as Exhibit C. All defined terms used herein and not defined shall have the respective meanings set forth in the Plans unless specifically provided to the contrary herein. The Company will promptly deliver to the Trustee copies of all amendments to the Plans and copies of any additional plans to be covered by this Agreement after the date first above written.

3.2 The terms of each of the Plans shall govern the amount, form and timing of benefit payments under each Plan to which a Participant is entitled.

3.3 The provisions of this Trust Agreement shall not cause the Plans to become irrevocable under the provisions of Section 1.2 of this Trust Agreement.

3.4 The Trustee shall not be a party to the Plans, nor shall the Trustee have any right or obligations with respect to any of the provisions of the Plans relating to the funding of benefits or the funding of the Fee Trust or the Shortfall Trust.

### ARTICLE IV

#### TRUST FUND

4.1 It is intended that each Trust constitute a grantor trust under Code Sections 671 through 679, with the assets of the Fund being treated as assets of the Company for purposes of Federal, state and local income tax laws. The creation of the Trusts shall not cause the Plans to be treated as funded plans for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended from time to time.

4.2. The assets of the Fund shall at all times be subject to the claims of the general creditors of the Company under Federal and state law. The Trustee shall suspend payments to the Participants from the Fund if the Trustee receives timely written notification from the Company's Board of Directors and its Chief Executive Officer that the Company is Insolvent. For purposes of this Article IV, the term "Insolvent" means (a) the inability of the Company to pay its debts when they mature or (b) the Company is subject as a debtor to a pending proceeding under the Federal Bankruptcy Code. It shall be the duty of the Company's Board of Directors and its Chief Executive Officer to provide the Trustee with timely written notification of such events. Under any such circumstance, the Trustee shall suspend payments from the Fund to the Participants and shall pay the assets held in the Fund only as a court of competent jurisdiction shall direct to satisfy claims of general creditors of the Company. It is intended that the rights of the general creditors of the Company to enforce the provisions of this Article in the event of the Company's Insolvency be enforceable with respect to the Fund at the time of Insolvency under both Federal and state law. It is also intended that no provision of this Trust Agreement shall in any way affect the Participants' rights as general creditors of the Company.

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4.3 If a person claiming to be a creditor of the Company alleges in writing to the Trustee that the Company has become Insolvent, the Trustee shall determine whether the Company is Insolvent and, pending such determination, in accordance with Section 4.4, the Trustee shall discontinue payment of benefits to Participants or beneficiaries.

4.4 Unless the Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, the Trustee shall have no duty to inquire whether the Company is Insolvent. The Trustee may in all events rely

on such evidence concerning the Company's Insolvency as may be furnished to the Trustee and that provides the Trustee with a reasonable basis for making a determination concerning the Company's Insolvency.

4.5 The Trustee shall resume the payment of benefits to the Participants or beneficiaries in accordance with Article VII of this Trust Agreement only after the Trustee has determined that the Company is not Insolvent (or is no longer Insolvent) based on such evidence as the Trustee determines to be sufficient for such purpose such as a report from the Company's independent auditors, if the Company is not subject to a bankruptcy proceeding or otherwise an order from a court of competent jurisdiction.

4.6 Provided that there are sufficient assets, if the Trustee discontinues the payment of benefits from the Fund pursuant to this Article and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to the Participants or beneficiaries under the terms of the Plans for the period of such discontinuance, less the aggregate amount of any payments made to the Participants or beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

#### ARTICLE V

##### DUTIES OF THE TRUSTEE

###### WITH RESPECT TO INVESTMENTS AND DIRECTIONS

5.1 The Trustee shall invest and reinvest the principal and income of the Trust Fund as directed by the Committee in writing, which directions may be changed from time to time. Following the receipt of notice of a Change of Control pursuant to Section 16.1 hereof, the Trustee shall invest and reinvest the principal and income of the Trust Fund as it shall determine in its sole discretion subject to the overall objective of the Fund which is the preservation of capital. In such event, the Trustee shall keep the Trust Fund invested, without distinction between principal and income, in any property, whether real, personal or mixed, and wherever situated and whether or not productive of income, including without limitation, capital, common and preferred stocks, and personal, corporate and governmental or other obligations, whether secured or unsecured, and including any collective part interest therein; trust and participation certificates or other evidences of ownership, part ownership or part interest; all without being limited or restricted to investments of a character authorized for trustees or other fiduciaries under any present or future laws and, except as otherwise required by Federal law without regard to the proportion any such property may bear to the entire amount of the Trust Fund. Specifically, but not by way of limitation, the Trustee is authorized and empowered to invest all or any part of the Trust Fund in any common or collective trust fund or pooled investment fund presently or hereafter maintained by the Trustee as the same may be amended from time to time; and the declaration of trust establishing such common or collective fund is hereby made a part hereof as if set forth at length herein, the assets of the fund invested in said common or collective trusts shall be held and administered by the Trustee strictly in accordance with the terms of the instrument, and the combining of assets of the Trust Fund with assets of other trusts in such common or collective trust fund is specifically authorized hereby.

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5.2 The Trustee shall not be liable for any loss or any breach which arises from the Committee's exercise or non-exercise of rights under this Article 5, unless it was clear on their face that the actions to be taken under the Committee's directions were contrary to the terms of this Agreement.

5.3 Whenever the President or the Committee provides a direction to the Trustee, the Trustee shall not be liable for any loss, or by reason of any breach, arising from the direction (i) if the direction is contained in a writing (or is oral and immediately confirmed in a writing) signed by any individual whose name and signature have been submitted (and not withdrawn) in writing to the Trustee by the President and (ii) if the Trustee reasonably believes the signature of the individual to be genuine, unless it is clear on the directions face that the actions to be taken under the direction would be

contrary to the terms of this Agreement or applicable law.

5.4 The Company shall indemnify the Trustee against, and hold the Trustee harmless from, any and all loss, damage, penalty, liability, cost and expense, including without limitation, reasonable attorneys' fees and disbursements, that may be incurred by, imposed upon, or asserted against the Trustee by (i) reason of any claim, regulatory proceeding, or litigation arising from any act done or omitted to be done by any individual or person with respect to any Plan or the Trust, (ii) any action incident to a good faith determination concerning the Company's Insolvency or (iii) following the advice of counsel in good faith, excepting, in any such case, only any and all loss, etc., arising solely from the Trustee's negligence, bad faith or breach of applicable law or the terms of this Agreement. Notwithstanding the foregoing, the Company shall not indemnify the Trustee, unless the Trustee gives reasonably prompt written notice to the Company of any such claim, regulatory proceeding or litigation and offers the Company the right to defend against any such action unless the positions of the Company and the Trustee are in conflict and in any event the Trustee shall have the right to consult as to the defense.

5.5 The provisions of this Article V shall survive the termination of this Agreement.

#### ARTICLE VI

##### ADDITIONAL POWERS AND DUTIES OF THE TRUSTEE

6.1 Subject to the provisions of Article V hereof, the Trustee shall have the following powers and authority with respect to all property constituting part of the Fund:

(a) To sell, exchange, convey or transfer any property at public or private sale for cash or on credit and grant options for the purchase or exchange thereof; provided, however, that in no event may the Trustee invest in securities (including stock or rights to acquire stock unless such stock is the Company's principal class of common stock) or obligations issued by the Company, other than a de minimis amount held in common investment vehicles in which the Trustee invests. No person dealing with the Trustee shall be bound to see to the application of the purchase money or other property delivered to the Trustee or to inquire into the validity, expedience or propriety of any such sale or other disposition.

(b) To participate in any plan of reorganization, consolidation, merger, combination, liquidation or other similar plan relating to any such property, and to consent to or oppose any such plan or any action thereunder, or any contract, lease, mortgage, purchase, sale or other action by any corporation or other entity.

(c) To deposit any such property with any protective, reorganization or similar committee; to delegate discretionary power to any such committee; and to pay part of the expenses and compensation of any such committee and any assessments levied with respect to any property so deposited.

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(d) To exercise any conversion privilege or subscription right available in connection with any such property; to oppose or to consent to the reorganization, consolidation, merger or readjustment of the finances of any corporation, company or association, or to the sale, mortgage, pledge or lease of the property of any corporation, company or association any of the securities of which may at any time be held in the Fund and to do any act with reference thereto, including the exercise of options, the making of agreements or subscriptions and the payment of expenses, assessments or subscriptions, which may be deemed necessary or advisable in connection therewith, and to hold and retain any securities or other property which it may so acquire.

(e) To commence or defend suits or legal proceedings and to represent the Fund in all suits or legal proceedings; to settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Fund; and to pay all reasonable expenses arising from any such action from the Fee Trust if not paid by the Company.

(f) To exercise, personally or by general or limited power of attorney, any right, including the right to vote, appurtenant to any securities or other such property.

(g) If the President consents, to borrow money from any lender in such amounts and upon such terms and conditions as shall be deemed advisable or proper to carry out the purposes of the Trusts and to pledge any securities or other property for the repayment of any such loan.

(h) To engage any legal counsel, including outside counsel to the Company or the Trustee, or any other suitable accounting, clerical or other agents, to consult with such counsel or agents with respect to the construction of this Trust Agreement, the duties of the Trustee hereunder, the transactions contemplated by this Trust Agreement or any act which the Trustee proposes to take or omit, to rely upon the advice of such counsel or agents, and to pay the reasonable fees, expenses and compensation from the Fee Trust if not paid by the Company. The Trustee shall have no liability for any action or failure to act in reasonable reliance upon the advice of such legal counsel.

(i) To register any securities held by it in its own name or in the name of any custodian of such property or of its nominee, including the nominee of any system for the central handling of securities, with or without the addition of words indicating that such securities are held in a fiduciary capacity, to deposit or arrange for the deposit of any such securities with such a system and to hold any securities in bearer form; provided, that the books and records of the Trustee shall show that all such investments are part of the Fund.

(j) To make, execute and deliver, as the Trustee, any and all deeds, leases, notes, bonds, guarantees, mortgages, conveyances, contracts, waivers, releases or other instruments in writing necessary or proper for the accomplishment of any of the foregoing powers.

(k) To keep that portion of the Fund in cash or cash balances as may be deemed to be in the best interest of the Fund.

(l) The Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein.

(m) Notwithstanding any powers granted to the Trustee pursuant to this Trust Agreement or applicable law, the Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Internal Revenue Code.

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(n) To invest all or any part of the Fund in any portfolios of The PNC Fund, as to the which the Company has received a Disclosure Statement, accompanied by Prospectuses describing each of the investment portfolios (the "Portfolios") established pursuant to a Declaration of Trust under the name of "The PNC Fund". The Company acknowledges that it is independent of PNC Bank Corp. and its affiliates ("PNC"), The PNC Fund and its affiliates, and that the Company will not receive direct or indirect compensation for its personal account in connection with any such investment.

(o) To do all other acts although not specifically mentioned herein, as the Trustee may deem necessary to carry out any of the foregoing powers and the purposes of this Trust Agreement.

## ARTICLE VII

### PAYMENTS BY THE TRUSTEE

7.1 If a Participant or beneficiary does not receive a payment(s) from the Company to which the individual claims entitlement under any of the Plans, the individual shall notify the Company, or, in the case of a Change of Control,

the Trustee, in writing of such entitlement.

7.2 The Trustee shall make payments to a Participant or beneficiary in accordance with written instructions given at the time of payment or in advance of such payment to the Trustee from the President as to the manner and timing of payments hereunder and the Trustee shall have no responsibility to determine the amount of such payments. Any such instructions in effect on the date of this Trust Agreement shall be attached hereto as Exhibit D, as the same may be changed from time to time prior to a Change of Control. The Company may not change such instructions on or after notification or knowledge of a Change of Control of the Company with respect to benefits accrued to date.

7.3 Nothing in this Trust Agreement shall be deemed to limit the rights of a Participant (or beneficiary) under the Plans, including the right to contest the denial of benefit payment(s) and, following a Change of Control, to have all reasonable legal fees and expenses incurred in contesting a denial paid from the Fee Trust.

7.4 The Trustee shall withhold from each payment any Federal withholding taxes or charges which the Trustee is properly instructed to deduct by the President or, following a Change of Control, by any compensation consultant engaged by the Company as to which the Trustee is notified in the instructions referred to in Section 7.2 hereof, and remit the amount withheld to the Company for deposit and reporting of such amounts to the appropriate authorities.

7.5 The insufficiency of assets in the Trust Fund shall not relieve the Company of its obligations or liabilities to make benefit payments otherwise due to a Participant or beneficiary under the terms of the Plans.

7.6 If any portion of the Trust Fund has been invested in a life insurance contract, the Trustee shall be precluded from payment of any benefits it has received pursuant to that contract to the Company unless the Participant (or beneficiary) has received all benefit payments due and payable under the terms of the applicable Plan.

7.7 The Company may make payment of benefits directly to Participants or their beneficiaries as they become due under the terms of the Plans. The Company shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Participants or their beneficiaries. In addition, if the principal of the Trust Fund is not sufficient to make payments of benefits in accordance with the terms of the Plans, the Trustee shall use assets of the Shortfall Trust to make

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payments due but if not sufficient, the Company shall make the balance of each such payment as it falls due. The Trustee shall notify the Company where principal and earnings of the Trust and the Shortfall Trust are not sufficient.

#### ARTICLE VIII

##### TAXES, EXPENSES AND COMPENSATION

8.1 The Company shall from time to time pay taxes of any and all kinds which are lawfully levied or assessed upon or become payable in respect of the Trust Fund, the income or any property forming a part thereof, or any security transaction pertaining thereto. To the extent that any taxes lawfully levied or assessed upon the Trust Fund are not paid by the Company, the Trustee shall pay such taxes out of the Fee Trust, or, to the extent that the Fee Trust is insufficient, on a pro rata basis from the other Trust Funds. The Trustee shall at the expense and direction of the Company contest the validity of any taxes in any manner deemed appropriate by the Company or its counsel or the Company may itself contest the validity of any such taxes. All reasonable expenses incurred by the Trustee in the performance of its duties under this Trust Agreement, including but not limited to legal fees and brokerage commissions, shall be charged against and paid from the Fee Trust to the extent that the Company does not pay such expenses, or, to the extent that the Fee Trust is insufficient, on a pro rata basis from the other Trust Funds.

8.2 The Company will pay the Trustee such reasonable compensation for its services indicated in Fee Schedule attached hereto as Exhibit E and as may thereafter be agreed upon in writing from time to time by the Company and the Trustee. Such compensation shall be paid directly by the Company. In the event such compensation is not paid by the Company, it shall be charged against the Fee Trust.

#### ARTICLE IX

##### ADMINISTRATION AND RECORDS

9.1 The Trustee shall keep or cause to be kept accurate and detailed accounts of any investments, receipts, disbursements and other transactions hereunder, and all accounts, books and records relating thereto shall be open to inspection and audit at all reasonable times by any person designated by the Company. All such accounts, books and records shall be preserved (in original form, or on microfilm, magnetic tape or any other similar process) for such period as the Trustee may determine, but the Trustee may only destroy such accounts, books and records after first notifying the Company in writing of its intention to do so and transferring to the Company any of such accounts, books and records requested.

9.2 Within 60 days after the close of each calendar year, and within 60 days after the removal or resignation of the Trustee or of the termination of the Trust, the Trustee shall file with the Company (and provide a copy thereof to the Participants, upon a written request) a written accounting setting forth all investments, receipts, disbursements and other transactions effected by it during the preceding calendar year and, if applicable, during the current calendar year to the date of such removal, resignation or termination, including a description of all investments and securities purchased and sold with the cost or net proceeds of such purchases or sales and showing all cash, securities and other property held at the end of such calendar year or other period and the fair market value thereof. To the extent permitted by applicable law, upon the expiration of 180 days from the date of filing such annual or other accounting, the Trustee shall be released and discharged from all liability and accountability with respect to the propriety of its acts and transactions shown in such accounting, except with respect to any such acts or transactions as to which the Company shall within such 180 day period file with the Trustee written objections.

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9.3 Nothing contained in this Trust Agreement shall be construed as depriving the Trustee or the Company of the right to have a judicial settlement of the Trustee's accounts, and upon any proceeding for a judicial settlement of the Trustee's accounts or for instructions, the only necessary party thereto in addition to the Trustee shall be the Company.

9.4 In the event of the removal or resignation of the Trustee, the Trustee shall deliver to the successor trustee all records which shall be required by the successor trustee to enable it to carry out the provisions of this Trust Agreement.

9.5 In addition to any returns required of the Trustee by law, the Trustee shall prepare and file such tax reports and other returns as the Company and the Trustee may from time to time agree upon in writing.

#### ARTICLE X

##### REMOVAL OR RESIGNATION OF THE TRUSTEE AND DESIGNATION OF SUCCESSOR TRUSTEE

10.1 The Company may remove the Trustee with or without cause, upon at least 60 days' notice in writing to the Trustee; provided, however, that following a Change of Control of the Company, as defined in Article XVI hereof, the Trustee may be removed only for cause.

10.2 The Trustee may resign at any time upon at least 60 days' notice in writing to the Company.

10.3 In the event of such removal or resignation, the Trustee shall duly file with the Company a written accounting as provided in Section 9.2 hereof for the period since the last previous annual accounting, listing the investments of the Trust and any uninvested cash balance thereof, and setting forth all receipts, disbursements, distributions and other transactions respecting the Trust not included in any previous accounting, and if written objections to such accounting are not filed as provided in Section 9.2 hereof, the Trustee shall to the maximum extent permitted by applicable law be forever released and discharged from all liability and accountability with respect to the propriety of its acts and transactions shown in such accounting.

10.4 Within 60 days after any notice of removal or resignation of the Trustee, the Company shall designate a successor trustee qualified to act hereunder; provided, however that in no event may the Company, an affiliate of the Company or of any Participant serve as the successor trustee. Notwithstanding the foregoing, the Trustee may not be removed or resign following a Change of Control of the Company unless the Trustee or the Company has obtained the agreement of, or a court of competent jurisdiction has appointed, a bank with assets in excess of \$1 billion and net worth in excess of \$50 million (a "Replacement Trustee") to replace the Trustee as trustee under the terms of this Trust Agreement. In any event, the Trustee shall continue to be custodian of the Fund's assets until the new trustee is in place, and the Trustee shall be entitled to expenses and fees through the end of its custodianship of the Fund. Each such successor trustee, during such period as it shall act as such, shall be bound by all of the provisions hereof as well as any instructions provided by the Company pursuant to the provisions hereof, shall have the powers and duties herein conferred upon an individual trustee, and the word "Trustee" wherever used herein, except where the context otherwise requires, shall be deemed to include any successor trustee.

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10.5 Upon designation of a successor trustee and delivery to the resigned or removed Trustee of written acceptance by the successor trustee of such designation, such resigned or removed trustee shall promptly assign, transfer, deliver and pay over to such successor trustee, in conformity with the requirements of applicable law, the funds and properties in its control or possession then constituting the Trust Fund. If, by the termination date, the Company has not notified the Trustee in writing as to whom the assets and cash are to be transferred and delivered, the Trustee may bring an appropriate action or proceeding for leave to deposit the assets and cash in a court of competent jurisdiction. The Trustee shall be reimbursed by the Fee Trust for all costs and expenses of the action or proceeding including, without limitation, reasonable attorneys' fees and disbursements if not paid directly by the Company or, to the extent that the Fee Trust is insufficient, on a pro rata basis from the other trust funds.

#### ARTICLE XI

##### ENFORCEMENT OF TRUST AGREEMENT

11.1 The Company shall have the right to enforce any provisions of this Trust Agreement. In any action or proceedings affecting the Fund the only necessary parties shall be the Company and the Trustee and, except as provided in Section 12.1 hereof or as otherwise required by applicable law, no other person shall be entitled to any notice or service of process. Any judgment entered in such an action or proceeding shall be binding and conclusive on all persons having or claiming to have any interest in the Fund.

#### ARTICLE XII

##### AMENDMENTS

12.1 Subject to the provisions of Section 12.3 hereof, the Committee may by written instrument, from time to time, amend or modify, in whole or in part, any or all of the provisions of this Trust Agreement, except to make it revocable or to increase the duties of the Trustee without its written consent. The Committee may delegate its authority to the President to the extent provided in any delegation instrument. The Trustee and the Participants under the Trusts



shall receive written notice of any such amendment including any amendment under Section 12.3 hereof.

12.2 The Committee and the Trustee shall execute any mutually agreeable supplements to, or amendments of, this Trust Agreement as shall be necessary to give effect to any such amendment or modification.

12.3 Notwithstanding anything herein to the contrary, to the extent that the terms hereof are inconsistent with the terms of the Plans, the latter shall control as if the terms hereof had been amended accordingly; provided, that the terms of the Plans may not increase the duties of the Trustee as set forth in this Agreement without the Trustee's written consent. Further, upon a Change of Control of the Company, the Committee shall be precluded from amending this Agreement in any manner that adversely affects the entitlement of the Participants and beneficiaries that had accrued on or prior to the Change of Control or is funded pursuant to the provisions of Article XVI hereof but has not been completely distributed to the Participants or beneficiaries, unless, in any such event, the Participant or beneficiary, as applicable, consents, in writing, to such amendment. Upon a Change of Control of the Company, this Section 12.3 shall be deemed to supersede any provision of the Plans which permits amendments of such Plans inconsistent with the terms hereof and this Section 12.3 shall constitute an amendment to such Plans.

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#### ARTICLE XIII

##### TERMINATION OF TRUST

13.1 Except as provided in Sections 4.2 or 16.2 hereof, no part of the corpus or income of the Fund shall be paid to the Company or be used for any purpose other than for the exclusive purpose of providing benefits to the Participants or beneficiaries prior to the satisfaction of all liabilities under the Plans; provided, however, that nothing in this Article shall be deemed to limit or otherwise prevent the payment from the Fund of expenses and other charges as provided in Article VIII hereof. The Trust may be prospectively discontinued by written instrument of the Committee at any time, but each Trust Fund may not be liquidated until the payment of all amounts accrued for the Participant (or beneficiary) under the terms of the Plans as of the date of such termination whether or not then due. In no event shall the discontinuance of the Trust accelerate the payment of a Participant's benefit under any of the Plans unless the Committee determines otherwise in its sole discretion.

13.2 Upon the liquidation of the Fund or any individual Trust Fund, after all payments required by Section 13.1 have been made to the Participant(s) (or beneficiary(ies)), any and all funds remaining in the Trust Fund or the Fund shall be paid to the Company and the Trustee shall promptly take such action as shall be necessary to transfer such assets to the Company or to add to the Shortfall Trust, as directed by the President in accordance with the funding policy established in accordance with Section 1.3 hereof.

#### ARTICLE XIV

##### NON-ALIENATION

14.1 Except to the extent otherwise required by law, (i) no amount payable to or in respect of the Participant at any time under the Trust Fund and no interest that the Participant has in the Trust Fund shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge or encumbrance of any kind, and any attempt to so alienate, sell, transfer, assign, pledge, attach, charge or otherwise encumber any such amount, whether presently or thereafter payable, shall be void; and (ii) the Trust Fund shall in no manner be liable for or subject to the debts or liabilities of the Participant.

14.2 No provision of this Trust Agreement shall be interpreted as conferring upon the Participant any rights in any Trust Fund established hereunder other than those of a general creditor of the Company.

#### ARTICLE XV

## COMMUNICATIONS

15.1 Communications to the Company shall be addressed to it at Philadelphia Suburban Corporation, 762 Lancaster Avenue, Bryn Mawr, PA 19010, Attention: President, with a required copy to Morgan, Lewis & Bockius, 2000 One Logan Square, Philadelphia, PA 19103-6993, Attention: Robert J. Lichtenstein, Esq.; provided however, that upon the Company's written request, such communications shall be sent to such other address as the Company may specify.

15.2 Communications to the Trustee shall be addressed to it at Retirement and Investment Services Group, 1700 Market Street, Suite 1412, Philadelphia, PA 19103, Attention: Joseph Petz; provided,

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however, that upon the Trustee's written request, such communications shall be sent to such other address as the Trustee may specify.

15.3 Any action of the Company, the President (or his authorized representative) or Committee pursuant to this Trust Agreement, including all orders, requests, directions, instructions, approvals and objections to the Trustee, shall be in writing signed on behalf of the Company by any duly authorized officer of the Company, by the President or by any duly authorized member of the Committee. The Trustee may rely on, and will be fully protected with respect to any such action taken or omitted in good faith in reliance on, any information, order, request, direction, instruction, approval, objection and list delivered to the Trustee consistent with the terms of this Trust Agreement.

## ARTICLE XVI

### CHANGE OF CONTROL

16.1 Upon a Change of Control of the Company, the President (or his authorized representative), shall immediately notify the Trustee of such event and cause the Company to remit to the Trustee as a contribution to the applicable Trust Fund established or to be established hereunder for the benefit of each Participant in the Plans the amount, if any, accrued for the Participant (including any interest or earnings due on such accrual) for the current year or for any prior year to the extent not theretofore already contributed or that may be accrued for the Participant for any future year under the Plans and not yet contributed to the Trustee as well as an amount to the Fee Trust estimated to be sufficient to pay all fees and expenses that may thereafter become due. Such contribution shall also include any life insurance policy(ies) purchased by the Company to be used in assisting the Company to provide benefits under any of the Plans and the Company shall cause the ownership of such policy(ies) to be transferred to the Trustee in its capacity as trustee under this Trust Agreement. The Trustee shall be under no duty to determine the sufficiency, or to enforce the making, of such contributions.

16.2 In the event that the President (or his authorized representative) determines that, for purposes of this Trust Agreement, a Change of Control of the Company is imminent, the President shall cause the Company to make the payments to the Trustee specified in Section 16.1. If a Change of Control of the Company shall not have occurred within six months of the contributions made pursuant to this Section 16.2 and the Company's Board of Directors adopts a resolution to the effect that, for purposes of this Trust Agreement, a Change of Control of the Company is not imminent, any amounts added to an applicable Trust pursuant to this Section 16.2, together with any earnings thereon, shall be paid by the Trustee to the Company, if so directed by the Board of Directors.

16.3 A Change of Control of the Company shall be deemed to have taken place if (i) any Person (including any individual, firm, corporation, partnership or other entity except the Company or any employee benefit plan of the Company or of any Affiliate or Associate, both as defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended, any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such employee benefit plan), together with all Affiliates and Associates of such Person, shall become the beneficial owner in the aggregate of 20% or more of the votes that all shareholders would be

entitled to cast in an election of Directors of the Company; (ii) at any time within any period of two consecutive years, individuals who (A) at the beginning of such period constitute the Board of Directors, or (B) become Directors after the beginning of such period and whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least 75% of the Directors then still in office who were directors at the beginning of the period, cease for any reason to constitute at least a majority of such Board of Directors; provided that any individual who ceases to be a Director by reason or death or disability shall be excluded from the numerator and the denominator in all calculations hereunder; or (iii) the

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President (or his appointee), determines, in his sole discretion, that even though none of the events described in (i) or (ii) have occurred, the surrounding facts and circumstances indicate that a Change of Control of the Company has effectively taken place. Notwithstanding the foregoing, a Change of Control shall not be deemed to have taken place under clause (i) of the immediately preceding sentence if (a) such Person becomes the beneficial owner in the aggregate of 20% or more of the Common Stock of the Company then outstanding as a result of an inadvertent acquisition by such Person if such Person, as soon as practicable, divests itself of a sufficient amount of its Common Stock so that it no longer owns 20% or more of the Common Stock then outstanding, as determined by the Board of Directors of the Company, or (ii) the shares of Common Stock required to be counted in order to meet the 20% minimum threshold described under such clause (i) include any of the shares described in subsections (i) through (iv) of section 2543(b) of the Pennsylvania Business Corporation Law of 1988 (15 Pa.C.S.A. ss.2543(b)) as in effect on the date of adoption of the Plan.

#### ARTICLE XVII

##### MISCELLANEOUS PROVISIONS

17.1 This Trust Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts made and to be performed therein. It shall be binding upon and inure to the benefit of the Company and the Trustee and their respective successors and assigns.

17.2 All titles and Article headings herein have been inserted for convenience of reference only and shall in no way modify, restrict or affect the meaning or interpretation of any of the terms or provisions of this Trust Agreement.

17.3 This Trust Agreement is intended as a complete and exclusive statement of the agreement of the parties hereto, and supersedes all previous agreements or understandings among them.

17.4 The term "Trustee" shall include any successor trustee. Any corporation resulting from any merger, consolidation or conversion to which the Trustee may be a party, or any corporation otherwise succeeding generally to all or substantially all of the assets or business of the Trustee, shall be the successor to it as Trustee hereunder without the execution of any instrument or any further action on the part of any party hereto or the Participant hereunder; provided, however, that, except as provided in the preceding clause, any successor to the original Trustee must be a Replacement Trustee.

17.5 If any provision of this Trust Agreement shall be invalid and unenforceable, the remaining provisions hereof shall continue to be effective.

17.6 Any reference hereunder to the Participant shall expressly be deemed to include, where relevant, a beneficiary of such Participant duly designated under the terms of any of the Plans. The Participant shall cease to have such status once any and all amounts due under the Plans have been satisfied.

17.7 Whenever used herein, and to the extent appropriate, the masculine, feminine or neuter gender shall include the other two genders, the singular shall include the plural and the plural shall include the singular.

17.8 This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed to be the original, and said counterparts shall constitute but one and the same instrument.

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17.9 Benefits payable to Plan participants and their beneficiaries under this Trust Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

IN WITNESS WHEREOF, this Trust Agreement has been duly executed by the parties hereto as of the day and year first above written.

PHILADELPHIA SUBURBAN CORPORATION

Attest:

/s/ Patricia M. Mycek  
-----

By: /s/ Roy H. Stahl  
-----  
PNC BANK  
(as Trustee)

Attest:

/s/ Astrid M. Frederickson  
-----

By: /s/ Joseph L. Petz  
-----  
Vice President

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FIRST AMENDMENT TO  
PHILADELPHIA SUBURBAN WATER COMPANY  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
FOR NICHOLAS DEBENEDICTIS

(Effective March 15, 1993)

WHEREAS, Philadelphia Suburban Water Company (the "Company") established the Philadelphia Suburban Water Company Supplemental Executive Retirement Plan for Nicholas DeBenedictis to provide for the payment of a supplemental retirement benefit to Mr. DeBenedictis; and

WHEREAS, the Company reserved the right to amend the Plan; and

WHEREAS, the Company desires to amend the Plan to calculate the benefit under this Plan as if Mr. DeBenedictis had not deferred any compensation under the Philadelphia Suburban Corporation Executive Deferral Plan;

NOW, THEREFORE, effective January 1, 1995, the Plan is hereby amended to read as follows:

1. Section 2.1 is hereby amended to read as follows:

2.1 Calculation of Benefit.

(a) Retirement. The Supplemental Benefit payable to the Participant under this Plan upon his retirement from the Company on or after age 65 shall be equal to (i) the benefit that would be payable under the Retirement Plan if the Participant were fully vested in his benefit under the Retirement Plan, calculated as if the Participant had 25 Years of Service under the Retirement Plan on the date of retirement and had not deferred any compensation under the Philadelphia Suburban Corporation Executive Deferral Plan, and without taking into account the limitations of sections 401(a)(17) and 415 of the Internal Revenue Code of 1986, less (ii) the benefit payable to the Participant under the Retirement Plan and the Excess Benefit payable to the Participant under the Excess Plan. All of the adjustments provided in the Retirement Plan shall be taken into account when computing the Supplemental Benefit.

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(b) Termination of Employment Prior to Retirement. The Supplemental Benefit payable to the Participant under this Plan upon his termination of employment from the Company for any reason prior to age 65 shall be equal to (i) the benefit that would be payable under the Retirement Plan if the Participant were fully vested in his benefit under the Retirement Plan, calculated as if the Participant were credited with two years of benefit service for each of the first seven years of his actual service with the Company, plus one year of benefit service for each year of actual service after the seventh year of service and had not deferred any compensation under the Philadelphia Suburban Corporation Executive Deferral Plan, and without taking into account the limitations of sections 401(a)(17) and 415 of the Internal Revenue Code of 1986, less (ii) the benefit payable to the Participant under the Retirement Plan and the Excess Benefit payable to the Participant under the Excess Plan. All of the adjustments provided in the Retirement Plan shall be taken into account when computing the Supplemental Benefit.

2. Section 2.2 is hereby amended to read as follows:

2.2 Surviving Spouse Benefit. If the Participant dies prior to commencement of payment of his Supplemental Benefit, then a Surviving Spouse Benefit is payable to his Surviving Spouse as provided herein. If the Participant is entitled, or would be entitled except for the fact that he has not retired from the Company, to a Supplemental Benefit under Section 2.1(a),

the Surviving Spouse Benefit shall be equal to (i) the Retirement Plan Surviving Spouse Benefit that would be paid to the Participant's Surviving Spouse if the Participant were fully vested in his benefit under the Retirement Plan, calculated as if the Participant had 25 Years of Service under the Retirement Plan and had not deferred any compensation under the Philadelphia Suburban Corporation Executive Deferral Plan, and without taking into account the limitations of sections 401(a)(17) and 415 of the Internal Revenue Code of 1986, less (ii) the Retirement Plan Surviving Spouse Benefit and the Excess Surviving Spouse Benefit payable to the Surviving Spouse under the Excess Plan. In all other cases, the Surviving Spouse Benefit shall be equal to (i) the Retirement Plan Surviving Spouse Benefit that would be paid to the Participant's Surviving Spouse if the Participant were fully vested in his benefit under the Retirement Plan, calculated as if the Participant were credited with two years of benefit service for each of the first seven years of his actual service with the Company, plus one year

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of benefit service for each year of actual service after the seventh year of service and had not deferred any compensation under the Philadelphia Suburban Corporation Executive Deferral Plan, and without taking into account the limitations of sections 401(a)(17) and 415 of the Internal Revenue Code of 1986, less (ii) the Retirement Plan Surviving Spouse Benefit and the Excess Surviving Spouse Benefit payable to the Surviving Spouse under the Excess Plan. All of the adjustments specified in the Retirement Plan shall be taken into account in computing the Surviving Spouse Benefit.

IN WITNESS WHEREOF, Philadelphia Suburban Water Company has caused these presents to be duly executed, under seal, as of this 5th day of November, 1996.

Philadelphia Suburban Water  
Company

/s/ Patricia M. Mycek  
-----  
Corporate Secretary

By:/s/ Roy H. Stahl  
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[Corporate Seal]

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## EXHIBIT 13.4

SELECTED PORTION OF ANNUAL REPORT TO SHAREHOLDERS  
FOR THE YEAR ENDED DECEMBER 31, 1996

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

This Report contains, in addition to historical information forward-looking statements that involve risks and uncertainties. These forward-looking statements include statements regarding the Company's development, growth and expansion plans and the sufficiency of the Company's liquidity and capital. Such statements are based on management's current expectations and are subject to a number of uncertainties and risks that could cause actual results to differ materially from those described in the forward-looking statements.

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

Years ended December 31,	1996	1995	1994	1993	1992
-----					
Earned revenues	\$ 122,503	\$ 117,044	\$ 108,636	\$ 101,244	\$ 93,307
-----					
Income from continuing operations before income taxes	\$ 33,749	\$ 30,931	\$ 27,209	\$ 24,261	\$ 18,661
-----					
Operating Statistics					
Earned revenues	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Costs and expenses:					
Operating expenses	42.1 %	44.2 %	46.3 %	45.4 %	46.1 %
Depreciation and amortization	10.9 %	9.9 %	9.5 %	10.8 %	10.1 %
Taxes other than income taxes	6.8 %	6.6 %	6.6 %	6.8 %	7.0 %
Interest expense*	12.9 %	13.2 %	12.7 %	13.8 %	17.1 %
Allowance for funds used during construction	(0.2)%	(0.3)%	(0.1)%	(0.8)%	(0.3)%
-----					
Total costs and expenses	72.5 %	73.6 %	75.0 %	76.0 %	80.0 %
-----					
Income from continuing operations before income taxes	27.5 %	26.4 %	25.0 %	24.0 %	20.0 %
-----					
Effective tax rates	41.4 %	41.7 %	42.5 %	43.0 %	43.1 %
-----					
Income from continuing operations as a percentage of average stockholders' equity	11.7 %	12.0 %	11.2 %	11.4 %	11.0 %
=====					

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

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

Years ended December 31,		1996	1995	1994	1993	1992
-----						
Daily sendout (Million gallons per day)	Maximum	109.5	121.8	110.4	120.7	101.3
	Average	94.2	92.6	89.8	89.1	85.4
	=====					

Metered customers	Residential	265,765	248,500	234,624	232,684	230,740
	Commercial	13,449	12,019	11,071	11,014	10,841
	Industrial	753	554	539	538	543
	Other	4,174	3,792	3,299	2,959	2,664
	Total	284,141	264,865	249,533	247,195	244,788
-----						
Consumption per customer in gallons	Average	103,206	109,084	109,001	110,368	108,258
	-----					
Revenues from water sales	Residential	\$ 79,056	\$ 77,744	\$ 69,483	\$ 66,656	\$ 60,239
	Commercial	26,504	24,368	23,431	20,506	19,600
	Industrial	4,823	4,512	4,737	4,207	4,135
	Other	9,950	9,249	9,151	8,092	7,577
	Total	\$ 120,333	\$ 115,873	\$ 106,802	\$ 99,461	\$ 91,551
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## General Information

Philadelphia Suburban Corporation ("PSC" or the "Company"), a Pennsylvania corporation, is the holding Company of Philadelphia Suburban Water Company ("PSW"), a regulated water utility. PSW provides water to approximately 284,000 customers in 93 municipalities within its 463 square mile service territory. PSW's service territory is located in Pennsylvania, north and west of the City of Philadelphia.

## Results of Operations

Income from continuing operations of the Company has grown at an annual compound rate of approximately 14.2% during the five-year period ended December 31, 1996. During this same period, revenues and total expenses, other than income taxes, have grown at compound rates of 6.7% and 4.5%, respectively.

## Earned Revenues

The growth in revenues over the past five years is a result of increases in the customer base and in water rates. The number of customers increased at an annual compound rate of 3.8% in the past five years primarily as a result of acquisitions of local water systems. In the past three years, acquisitions have provided water revenues of approximately \$8,210, \$5,550 and \$2,480 in 1996, 1995 and 1994, respectively. Excluding the effect of acquisitions, the customer base increased at a five-year annual compound rate of .8%. This increase represents normal growth in the number of households and businesses within PSW's 463 square mile service territory. Water rates have increased at an annual compound growth rate of 4.3% over the five-year period.

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

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 of 7.7%, in which a 12% return on common equity was allowed, was the most recent decision in which the PUC specified a return on common equity for PSW. The rate increases that were effective since 1991 resulted from settlements, with PUC approval, between the Company and the



opposing parties and, as such, no determination of the rate of return on common equity was made by the PUC.

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

In August 1996, the PUC approved PSW's request to add a surcharge to its water bills to offset the additional depreciation and capital costs associated with certain non-revenue producing, non-expense reducing capital expenditures related to replacing and rehabilitating its distribution system. In its approval, the PUC indicated that it would allow PSW, as well as other water utilities, to implement a "Distribution System Improvement Charge" or "DSIC" starting in January 1997 for qualified capital additions placed in service from September 1, 1996 to November 30, 1996. In January 1997, PSW began billing a DSIC of .5%. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective. The maximum DSIC that can be in effect at any time is 5%.

"Sendout" represents the quantity of treated water delivered to the distribution system and is used by management as an indicator of customer demand. Consumption per customer is the sendout that was used by metered customers and is based on the actual bills rendered during the year adjusted for the estimated unbilled customer usage. Water consumption tends to be impacted by weather conditions, particularly during the late spring and summer months when nonessential and recreational use of water is at its highest. Consequently, a higher proportion of annual operating revenues is realized in the second and third quarters. It is difficult to establish an exact correlation between the weather and water consumption, since conservation and even day-to-day variations in weather patterns can have an effect. Conservation efforts, construction codes which require the use of low flow plumbing fixtures as well as mandated water use restrictions in response to drought conditions have also had an effect on water consumption.

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Over the past five years, sendout has increased primarily as a result of the growth in customers. The average annual consumption per customer declined by 5.4% in 1996 but has only varied slightly in the previous four years. The decline in the average consumption per customer in 1996 is due to rainfalls, that were well above average, and the cooler weather experienced during the year.

#### Operating Expenses

Operating expenses for 1996, 1995 and 1994, totaled \$51,615, \$51,702 and \$50,296, respectively. All elements of cost are subject to the effects of inflation, as well as the effects of changes in water consumption and the degree of treatment required due to variations in the quality of the raw water. The principal elements of operating costs are labor, electricity, chemicals and maintenance expenses. Electricity and chemical expenses vary in relationship to water consumption and raw water quality. Maintenance expenses are sensitive to extreme cold weather, which can cause water mains to rupture.

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

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

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

#### Depreciation and Amortization

Depreciation expense was \$13,068, \$11,572 and \$10,468 in 1996, 1995 and 1994, respectively, and has increased principally as a result of the significant capital expenditures made to expand and improve the water utility facilities and to acquire water systems. Depreciation expense was approximately 2.4% of the average utility plant in service for all years. Amortization was a charge of \$265 as compared to a credit of \$15 in 1995 and a credit of \$138 in 1994. The change in 1996 is due to the amortization of the costs of the 1995 rate case as well as the amortization of debt issuance costs, including premiums paid on the early retirement of certain First Mortgage Bonds. The change in amortization in 1995 is primarily due to a reduction in the amortization of acquisition adjustments offset by a decline in the amortization of rate case costs.

#### Taxes Other than Income Taxes

Taxes other than income taxes increased by 8% in 1996 and by 7% in 1995 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, including increases associated with acquisitions completed in the last two years. The increase in the Capital Stock Tax is due to the increases in the Company's common equity over the past three years.

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#### Interest Expense

Interest expense was \$15,311, \$14,852 and \$12,896 in 1996, 1995 and 1994, respectively, and has increased in 1996 and 1995 primarily as a result of higher levels of borrowing offset in part by a reduction in interest rates. The level of debt increased in order to finance acquisitions and other capital expenditures made since 1994.

#### Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") was \$264, \$305 and \$126 in 1996, 1995 and 1994, respectively, and has varied over the years as a result of changes in the average balance of utility plant construction work in progress ("CWIP"), to which AFUDC is applied, and to changes in the AFUDC rate.

The average balance of CWIP to which AFUDC is applied was \$4,441, \$4,848 and \$2,820 in 1996, 1995 and 1994, respectively. The increases in 1995 in the average balance of CWIP were due to a \$4,600 operations center that was placed in service in December 1995. AFUDC is no longer applied to projects after they are placed in service, but is applied to an ever-increasing base during the period they are under construction.

The AFUDC rate has varied due to changes in the interest rate on PSW's revolving credit facility. The average AFUDC rate was 6.1%, 6.3% and 4.6% in 1996, 1995 and 1994, respectively.

## Income Taxes

The Company's effective income tax rate was 41.4% in 1996 as compared to 41.7% in 1995 and 42.5% in 1994. The decrease in the effective tax rate in 1996 is due to differences between tax deductible expenses and book expenses. The decline in the effective tax rate in 1995 compared to 1994 was primarily due to a 2% reduction in the Pennsylvania Corporate Net Income Tax.

## Discontinued Operations

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

In 1996 and 1995, the Company reversed \$965 and \$370, net of related income taxes, of these reserves. The reversals were made as a result of the receipt of contingent sales proceeds from two of the businesses that were sold; the passage of time, which reduced certain potential lease obligations; and the assessment of current information on asserted and unasserted legal claims related to these businesses. The balance of the reserves for discontinued operations of \$1,003 at December 31, 1996 consists primarily of reserves for future and contingent costs including potential lease, legal and insurance costs associated with these businesses.

## Summary

Operating income in 1996, 1995 and 1994 was \$49,290, \$46,109 and \$40,845, respectively, and income from continuing operations was \$19,778, \$18,030 and \$15,638, respectively, for the same periods. Net income available to common stock was \$20,722 in 1996 and \$18,400 in 1995 and was higher than income from continuing operations as a result of the reversals of reserves for discontinued operations as described above. On a per share basis, income from continuing operations in 1996, 1995 and 1994 was \$1.04, \$1.00 and \$.90, respectively. The increases in the per share income in 1996 and 1995 over the previous years were due to the aforementioned improvements in profits offset in part by a 5.7% and 3.9% increase in the average number of common shares outstanding during 1996 and 1995, respectively.

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

## Fourth Quarter Results

Income from continuing operations for the fourth quarter of 1996 increased over the same period in 1995 by \$358 to \$4,682 primarily as a result of a \$1,549 increase in revenues offset in part by an increase in operating expenses, depreciation, taxes, and interest expense. The increase in revenues was a result of the acquisitions made during the past two years and the 5.3% rate increase which took effect October 27, 1995. Operating expenses increased due to costs associated with the acquisitions. Depreciation increased due to utility plant additions made since the fourth quarter of 1995. Taxes other than income taxes increased primarily because of the increase in the base on which the PURTA and Capital Stock Tax are computed. Interest increased in the fourth quarter primarily as a result of higher borrowing levels.

## Effects of Inflation

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

## Financial Condition

## Cash Flow and Capital Expenditures

Net operating cash flow, dividends paid on common stock and capital expenditures, including allowances for funds used during construction, for the five years ended December 31, 1996 are as follows:

	Net Operating Cash Flow	Common Dividends	Capital Expenditures
1992	\$ 23,928	\$ 8,866	\$ 21,719
1993	27,049	11,629	27,958
1994	29,730	12,637	27,379
1995	32,954	13,546	33,182
1996	37,422	14,795	31,389
	\$ 151,083	\$ 61,473	\$ 141,627

Included in capital expenditures are: \$17,865 for the construction of a surface water treatment plant; \$11,128 for the modernization of existing treatment plants; \$9,383 for new water mains; \$24,720 for the rehabilitation of existing water mains; \$18,482 for water meters and \$4,945 for the construction of a divisional operations center. During this five year period, PSW received \$10,950 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 \$4,242, retired \$63,100 of debt and \$4,357 of preferred stock, and has refunded \$12,037 of customer advances for construction. PSW has also expended \$79,536 related to the acquisition of 18 water systems since 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 \$112,777 of First Mortgage Bonds, and received \$32,495 of equity investments from the Company during the past five years.

The Company has funded its investment in PSW with the proceeds from the sale of stock and the sale of its discontinued operations. In April 1993, the Company sold 1,650,000 shares of common stock in a public offering for net proceeds of \$18,331. The Company has also sold 5,165,447 shares of common stock for net proceeds of \$59,047 since 1992 through three programs that allow existing shareholders and customers of PSW to purchase shares of common stock directly from the Company as described in the following table:

Customer Stock Purchase Program	Dividend Reinvestment Program	Optional Stock Purchase Program	Total
--	-------------------------------------	--	-------

Net proceeds:

1992	\$ 24,185	\$ 742	\$ 264	\$ 25,191
1993	5,465	1,491	583	7,539
1994	3,541	2,047	603	6,191
1995	4,680	2,324	842	7,846
1996	7,953	3,111	1,216	12,280
	-----	-----	-----	-----
	\$ 45,824	\$ 9,715	\$ 3,508	\$ 59,047
	=====	=====	=====	=====

Shares issued:

1992	2,503,739	76,715	25,738	2,606,192
1993	448,410	130,056	47,786	626,252
1994	301,035	175,530	49,662	526,227
1995	383,183	199,365	68,503	651,051
1996	483,113	199,597	73,015	755,725
	-----	-----	-----	-----
	4,119,480	781,263	264,704	5,165,447
	=====	=====	=====	=====

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 four 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 1996 dividend payment, holders of 22% of the common shares outstanding participated in the DRP.

PSW's 1997 capital program, exclusive of the costs of new mains financed by advances and contributions in aid of construction, is estimated to be \$35,000, which is expected to be financed, along with \$12,000 of debt maturities, \$444 of sinking fund obligations and \$1,429 of preferred stock redemptions through internally-generated funds, the revolving credit facility, equity investments from the Company, and issuance of new long-term debt. In addition, PSW continues to hold acquisition discussions with several water systems that are near or adjacent to PSW's service territory. The cash needed for acquisitions would be funded initially with short-term debt with subsequent repayment from the proceeds of long-term debt or equity investments from the Company. Equity investments from the Company will be financed primarily from the issuance of its stock through the three programs discussed above or possibly through an underwritten public offering.

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Future utility construction in the period 1998 through 2001, 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 \$120,000. The Company anticipates that approximately 50% of these expenditures will require external financing. The estimates discussed above do not include any amounts for possible future acquisitions of water systems or the financing necessary to support them.

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

Operating cash flow from PSW, along with external financings, will enable the Company to pursue its capital expenditure programs, pay dividends and supply the working capital required by the Company in 1997. Management believes that with continued regulatory support, it will be able to obtain the external financing that it will need.

Capitalization

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

December 31,	1996	1995	1994	1993	1992
Long-term debt*	55.3%	53.5%	49.9%	50.7%	58.1%
Preferred stock *	2.1%	2.0%	3.3%	3.4%	3.6%
Common stockholders' equity	42.6%	44.5%	46.8%	45.9%	38.3%
	100.0%	100.0%	100.0%	100.0%	100.0%

\*includes current portion.

The changes in the capitalization ratios result from the issuance of common stock over the past five years, particularly in 1992 and 1993 and the issuance of debt by PSW to finance its acquisitions and capital program. The Company and PSW intend to maintain an equity ratio adequate to maintain PSW's current Standard and Poors debt rating of "A" and may issue common stock in an underwritten public offering during 1997 in order to increase its common equity ratio.

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#### Dividends on Common Stock

Following is a recent history, adjusted for the 1996 common stock split of income from continuing operations and dividends of the Company:

	Cash dividend per common share	Income per share from continuing operations	Payout ratio
1992	\$ 0.69	\$ 0.82	84%
1993	0.71	0.85	84%
1994	0.73	0.90	81%
1995	0.76	1.00	76%
1996	0.79	1.04	76%

Dividends have averaged approximately 80% of income from continuing operations during this period. In 1996, the annual dividend increased by 4.7% to \$.81 beginning with the September 1996 dividend.

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#### MANAGEMENT'S REPORT

The consolidated financial statements and related information for the years ended December 31, 1996, 1995 and 1994 were prepared by management in accordance with generally accepted accounting principles and include management's best estimates and judgments, as required. Financial information included in other sections of this annual report is consistent with that in the consolidated financial statements.

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

responsibility and dissemination of policies and procedures.

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

The Board of Directors through the Audit Committee selects the Company's independent auditors and reviews the scope and results of their audits. The Audit Committee also reviews the adequacy of the Company's internal control structure and other significant matters. The Audit Committee is comprised of four outside Directors who meet periodically with management and the independent auditors. The Audit Committee held two meetings in 1996.

Nicholas DeBenedictis  
Chairman &  
President

Michael P. Graham  
Senior Vice President - Finance  
& Treasurer

INDEPENDENT AUDITORS' REPORT  
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The Stockholders and Board of Directors  
Philadelphia Suburban Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, and cash flows for each of the years in the three-year period ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania  
February 3, 1997

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share amounts)  
Years ended December 31, 1996, 1995 and 1994

	1996	1995	1994
Earned revenues	\$ 122,503	\$ 117,044	\$ 108,636
Costs and expenses:			
Operating expenses	51,615	51,702	50,296
Depreciation	13,068	11,572	10,468
Amortization	265	(15)	(138)
Taxes other than income taxes	8,265	7,676	7,165
	73,213	70,935	67,791
Operating income	49,290	46,109	40,845
Interest expense	15,311	14,852	12,896
Dividends on preferred stock of subsidiary	494	631	866
Allowance for funds used during construction	(264)	(305)	(126)
Income from continuing operations before income taxes	33,749	30,931	27,209
Provision for income taxes	13,971	12,901	11,571
Income from continuing operations	19,778	18,030	15,638
Reversal of reserve for discontinued operations, net of income tax of \$520 and \$200, in 1996 and 1995	965	370	-
Net income	20,743	18,400	15,638
Dividends on preferred stock	21	-	-
Net income available to common stock	\$ 20,722	\$ 18,400	\$ 15,638
Net income per common share:			
Continuing operations	\$ 1.04	\$ 1.00	\$ 0.90
Discontinued operations	0.05	0.02	-
Total	\$ 1.09	\$ 1.02	\$ 0.90
Average common and common equivalent shares outstanding during the period	19,053	18,024	17,346

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands of dollars, except per share amounts)  
December 31, 1996 and 1995



	1996	1995
Assets		
Property, plant and equipment, at cost	\$ 612,812	\$ 529,364
Less accumulated depreciation	109,874	92,459
Net property, plant and equipment	502,938	436,905
Current assets:		
Cash	1,518	2,387
Accounts receivable, net	21,914	22,112
Inventory, materials and supplies	1,943	1,878
Prepayments and other current assets	660	537
Total current assets	26,035	26,914
Regulatory assets	48,491	48,757
Deferred charges and other assets, net	5,480	5,475
	\$ 582,944	\$ 518,051
Liabilities and Stockholders' Equity		
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ -
Common stock at \$.50 par value, authorized 40,000,000 shares, outstanding 19,198,579 and 18,283,122 in 1996 and 1995	9,731	6,224
Capital in excess of par value	121,439	110,987
Retained earnings	49,272	43,345
Treasury stock, 262,230 and 259,125 shares in 1996 and 1995	(3,647)	(3,580)
Total stockholders' equity	180,015	156,976
Preferred stock of subsidiary with mandatory redemption requirements	4,214	5,643
Long-term debt, excluding current portion	217,518	175,395
Commitments	-	-
Current liabilities:		
Current portion of long-term debt and preferred stock of subsidiary	13,873	15,090
Loans payable	5,560	6,455
Accounts payable	9,659	9,785
Accrued interest	3,660	3,601
Accrued taxes	3,363	2,851
Other accrued liabilities	8,924	10,136
Total current liabilities	45,039	47,918
Deferred credits and other liabilities:		
Deferred income taxes and investment tax credits	75,949	70,980
Customers' advances for construction	23,524	25,880
Other	12,826	12,064
Total deferred credits and other liabilities	112,299	108,924
Contributions in aid of construction	23,859	23,195
	\$ 582,944	\$ 518,051

See accompanying notes to consolidated financial statements.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CAPITALIZATION  
(In thousands of dollars, except per share amounts)  
December 31, 1996 and 1995

	1996	1995
Stockholders' equity:		
6.05% Series B cumulative preferred stock	\$ 3,220	\$ -
Common stock, \$.50 par value	9,731	6,224
Capital in excess of par value	121,439	110,987
Retained earnings	49,272	43,345
Treasury stock	(3,647)	(3,580)
Total stockholders' equity	180,015	156,976
Preferred stock of subsidiary with mandatory		

redemption requirements	5,643	7,143
Current portion of preferred stock of subsidiary	1,429	1,500
	-----	-----
	4,214	5,643
	-----	-----
Long-term debt:		
First Mortgage Bonds secured by utility plant:		
5.500% Series, due 1996	-	4,000
7.875% Series, due 1997	-	5,000
8.440% Series, due 1997	12,000	12,000
8.400% Series, due 2002*	-	4,150
5.950% Series, due 2002*	2,400	2,800
6.830% Series, due 2003	10,000	-
7.470% Series, due 2003	10,000	-
6.820% Series, due 2005	10,000	10,000
6.990% Series, due 2006	10,000	-
10.650% Series, due 2006*	-	10,000
9.890% Series, due 2008	5,000	5,000
7.150% Series, due 2008*	22,000	22,000
9.120% Series, due 2010	20,000	20,000
6.500% Series, due 2010*	3,200	3,200
9.170% Series, due 2011	5,000	5,000
9.930% Series, due 2013	5,000	5,000
6.890% Series, due 2015	12,000	12,000
9.970% Series, due 2018	5,000	5,000
9.170% Series, due 2021*	8,000	8,000
6.350% Series, due 2025	22,000	22,000
7.720% Series, due 2025	15,000	15,000
9.290% Series, due 2026	12,000	12,000
	-----	-----
Total First Mortgage Bonds	188,600	182,150
Note payable to bank under revolving credit agreement, due March 1998	39,727	5,160
Installment note payable, 9%, due in equal annual payments through 2013	1,635	1,675
	-----	-----
	229,962	188,985
Current portion of long-term debt	12,444	13,590
	-----	-----
Long-term debt, excluding current portion	217,518	175,395
	-----	-----
Total capitalization	\$ 401,747	\$ 338,014
	=====	=====

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

See accompanying notes to consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENTS  
(In thousands of dollars)  
Years ended December 31, 1996, 1995 and 1994

	1996	1995	1994
	-----	-----	-----
Cash flows from operating activities:			
Income from continuing operations	\$ 19,778	\$ 18,030	\$ 15,638
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	13,333	11,557	10,330
Deferred taxes, net of taxes on customers' advances	2,628	2,573	2,693
Net increase in receivables, inventory and prepayments	(517)	(2,037)	(1,209)
Net increase in payables, accrued interest and other accrued liabilities	1,748	4,604	2,144
Other	452	(1,773)	134
	-----	-----	-----
Net cash flows from operating activities	37,422	32,954	29,730
	-----	-----	-----
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of \$264, \$305 and \$126	(31,389)	(33,182)	(27,379)
Acquisitions of water and wastewater systems	(42,122)	(26,351)	(612)
Other	24	(91)	(10)
	-----	-----	-----
Net cash flows used in investing activities	(73,487)	(59,624)	(28,001)
	-----	-----	-----
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction, net of income tax payments	470	1,600	3,149

Repayments of customers' advances	(2,142)	(2,104)	(2,219)
Net proceeds (repayments) of short-term debt	(895)	2,405	3,231
Proceeds from long-term debt	64,256	57,906	7,722
Repayments of long-term debt including premium on early retirement	(24,094)	(23,585)	(4,884)
Redemption of preferred stock of subsidiary	(1,500)	(2,857)	-
Proceeds from issuing common stock	14,651	9,060	6,916
Repurchase of common stock	(760)	(733)	(2,230)
Dividends paid on preferred stock	(4)	-	-
Dividends paid on common stock	(14,795)	(13,546)	(12,637)
Other	(167)	(154)	(45)
Net cash flows from (used in) financing activities	35,020	27,992	(997)
Net cash flows from (used in) discontinued operations	176	(178)	123
Net increase (decrease) in cash	(869)	1,144	855
Cash balance beginning of year	2,387	1,243	388
Cash balance end of year	\$ 1,518	\$ 2,387	\$ 1,243

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

See accompanying notes to consolidated financial statements.

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## PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

#### Summary of Significant Accounting Policies

##### Nature of Operations

The business of Philadelphia Suburban Corporation (the "Company") is conducted through its subsidiary Philadelphia Suburban Water Company ("PSW"). PSW is a regulated public utility which supplies water to approximately 284,000 customers. The customers are residential, commercial and industrial in nature, and no single customer accounted for more than one percent of PSW's sales. The service territory of PSW covers a 463 square mile area located west and north of the City of Philadelphia. PSW is subject to regulation by the Pennsylvania Public Utility Commission ("PUC") which has jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters.

##### Consolidation

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

##### Recognition of Revenues

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.

##### Property, Plant and Equipment and Depreciation

Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 1996, utility plant includes a credit acquisition adjustment of \$7,177 which is being amortized over 20 years. Consistent with PSW's rate settlements, \$526 was amortized during 1996, \$529 was amortized during 1995 and \$822 was amortized during 1994.

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

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

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") 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 1996, 1995 and 1994.

Deferred Charges and Other Assets

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

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

Expenses associated with filing for rate increases are deferred and amortized over the estimated period the rates will be in effect, approximately one year. Other costs, for which PSW has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery.

Income Taxes

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

Customers' Advances for Construction

Water mains or, in some instances, cash advances to reimburse PSW its costs to construct water mains, are contributed to PSW by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. PSW makes refunds on these advances over a specific period of time

based on operating revenues related to the main or as new customers are connected to the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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 cost, not in excess of market value. Beginning in 1996, cost is determined using the first-in, first-out method. Prior to 1996, cost was determined using the average cost method. The effect of this change was not material to the results of operations.

Employee Stock Plans

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

Use of Estimates in Preparation of Consolidated Financial Statements

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

Reclassifications

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

Acquisitions

In October 1996, PSW purchased the franchise rights and the water utility assets of Hatboro Borough Authority. The Hatboro system covers a one and one-half square mile service area in Montgomery County and is contiguous to PSW's service territory. In November 1996, PSW acquired the water systems of Utility Group Services Corporation ("UGS") in a purchase transaction. The UGS system consisted of three water utilities, with a 49 square mile service territory, and one wastewater utility with a one square mile territory, all in Chester County and in close proximity to PSW's existing territory. In December 1996, PSW purchased the franchise rights and the water utility assets of Bristol Borough Water and Sewer Authority serving the entire Borough and parts of Bensalem and Bristol Townships in Bucks County. The Bristol system covers a 12 square mile service area in close proximity to PSW's existing territory. In addition, PSW purchased the franchise rights and the water utility assets of three smaller water systems in 1996 with a combined service territory of one and one-half square miles.

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

The total purchase price for the eight water systems and wastewater system acquired in 1996 was \$47,889, including the issuance of \$3,220 of the Company's preferred stock and the assumption of \$2,547 in liabilities. The annual revenues from these systems approximates \$6,000, and revenues included in the consolidated financial statements during the period owned by PSW were \$466. PSW continues to hold acquisition discussions with several water systems that are near or adjacent to it's service territory.

In May 1995, PSW purchased the franchise rights and the water utility assets of Media Borough ("Media"). The Media system covers a 23 square mile service area contiguous to PSW's service territory. In addition, PSW purchased the franchise rights and the water utility assets of four smaller water systems in 1995 that cover a combined service territory of four square miles. PSW paid \$26,351 for the water systems acquired in 1995. These systems serve customers within or contiguous to the boundaries of PSW's existing service territory. Revenues included in the consolidated financial statements related to the water supply systems acquired in 1995 were \$4,470 in 1996 and \$2,820 in 1995.

In December 1994, PSW acquired the franchise rights and the water utility assets of two privately-owned water companies. These water supply systems cover a service territory of two square miles and are located adjacent to PSW's existing service territory. Revenues included in the consolidated financial statements related to the water supply systems acquired in 1994 amounted to approximately \$93 and \$95 in 1996 and 1995, respectively.

Income Taxes  
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Total income tax expense is allocated as follows:

	Years Ended December 31,		
	1996	1995	1994
Income from continuing operations	\$ 13,971	\$ 12,901	\$ 11,571
Common stockholders' equity related to stock option activity which reduces taxable income	(126)	(44)	(25)
Discontinued operations	520	200	-
	\$ 14,365	\$ 13,057	\$ 11,546

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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

Years Ended December 31,		
1996	1995	1994

Current:			
Federal	\$ 8,084	\$ 7,688	\$ 6,670
State	2,600	2,514	2,685
	-----	-----	-----
	10,684	10,202	9,355
	-----	-----	-----
Deferred:			
Federal	3,002	2,565	2,303
State	285	134	(87)
	-----	-----	-----
	3,287	2,699	2,216
	-----	-----	-----
Total tax expense	\$ 13,971	\$ 12,901	\$ 11,571
	=====	=====	=====

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

	Years Ended December 31,		
	1996	1995	1994
	-----	-----	-----
Excess of tax over financial statement depreciation	\$ 2,458	\$ 2,323	\$ 2,791
Amortization of deferred investment tax credits	(115)	(151)	(151)
Current year investment tax credits deferred	40	90	75
Differences in basis of fixed assets due to variations in tax and book accounting methods that reverse through depreciation	770	819	902
Customers' advances for construction, net	196	(443)	(657)
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	-	-	(4,220)
Adjustment to recognize future rate recovery	-	-	4,220
Other, net	(62)	61	(744)
	-----	-----	-----
Total deferred income tax expense	\$ 3,287	\$ 2,699	\$ 2,216
	=====	=====	=====

The statutory Federal tax rate is 35% for all years presented. The Pennsylvania Corporate Net Income Tax rate was 11.99% in 1994, and 9.99% in 1995 and 1996.

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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

	Years Ended December 31,		
	1996	1995	1994
	-----	-----	-----
Computed Federal tax expense at statutory rate	\$ 10,795	\$9,899	\$8,614
Increase (decrease) in tax expense for items to be recovered in future rates:			
Depreciation expense	179	132	154
Losses on asset disposals	(12)	(35)	(10)
Amortization of deferred investment tax credits	(115)	(151)	(151)
Preferred stock dividend	180	221	303
Adjustment to deferred tax assets and liabilities for enacted changes in tax rates	-	-	(4,220)
Adjustment to recognize future rate recovery	-	-	4,220

Other, net	59	187	63
Actual Federal tax expense	\$11,086	\$10,253	\$8,973

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,	
	1996	1995
Deferred tax assets:		
Customers' advances for construction	\$ 9,753	\$ 9,950
Costs expensed for book not deducted for tax, principally accrued expenses and bad debt reserves	2,638	1,502
Other	389	363
Total gross deferred tax assets	12,780	11,815
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	65,666	59,722
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	17,801	17,980
Deferred investment tax credit	4,288	4,363
Other	974	730
Total gross deferred tax liabilities	88,729	82,795
Net deferred tax liability	\$ 75,949	\$ 70,980

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The Company made income tax payments, which include amounts related to discontinued operations, of \$10,199, \$9,730 and \$8,818 in 1996, 1995 and 1994, respectively. The Company's Federal income tax returns for all years through 1992 have been closed.

Property, Plant and Equipment

	December 31,	
	1996	1995
Utility plant and equipment	\$ 604,298	\$ 524,445
Utility construction work in progress	6,232	2,645
Non-utility plant and equipment	2,282	2,274
Total property, plant and equipment	\$ 612,812	\$ 529,364

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

Accounts Receivable



	December 31,	
	1996	1995
Billed water revenue	\$ 9,760	\$ 9,594
Unbilled water revenue	11,764	12,450
Other	690	368
	-----	-----
	22,214	22,412
Less allowance for doubtful accounts	300	300
	-----	-----
Net accounts receivable	\$ 21,914	\$ 22,112

All of the Company's customers are located in southeastern Pennsylvania. No single customer accounted for more than one percent of the Company's sales in 1996 or 1995 and no account receivable from any customer exceeded one percent of the Company's total stockholders' equity.

Regulatory Asset

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

	December 31,	
	1996	1995
Income taxes	\$ 46,381	\$ 46,510
Postretirement benefits other than pensions	2,110	2,247
	-----	-----
	\$ 48,491	\$ 48,757

Commitments

PSW maintains agreements with the Chester Water Authority and the Bucks County Water and Sewer Authority for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2017. The estimated annual commitments related to such purchases total approximately \$2,852 through 2001. PSW purchased approximately \$2,889, \$2,839 and \$3,322 of water under these agreements during the years ended December 31, 1996, 1995 and 1994, respectively.

PSW leases motor vehicles and other equipment under operating leases which are noncancelable and expire on various dates through 2001. During the next five years, \$2,258 of future minimum lease payments are due: \$913 in 1997, \$699 in 1998, \$504 in 1999, \$129 in 2000 and \$13 in 2001. PSW leases parcels of land on which its Media treatment plant and other facilities are situated and adjacent parcels that are used for watershed protection. The operating lease is

noncancelable, expires in 2045 and contains certain renewal provisions. The lease is subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, \$292 of lease payments for land are due.

Rent expense was \$1,332, \$1,067 and \$979 for the years ended December 31, 1996, 1995 and 1994, respectively.

Long-term Debt and Loans Payable  
 -----

The Consolidated Statements of Capitalization provides a listing of long-term debt and loans outstanding as of December 31, 1996 and 1995. 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, 1996, approximately \$100,000 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:

	1997	1998	1999	2000	2001
	----	----	----	----	----
Sinking fund payments	\$ 444	\$ 2,448	\$ 2,452	\$ 2,457	\$ 2,462
Maturities	12,000	-	-	-	-
Total	\$ 12,444	\$ 2,448	\$ 2,452	\$ 2,457	\$ 2,462

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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 In March 1995, PSW established a two-year \$100,000 medium-term note program providing for the issuance of long-term debt with maturities ranging between one and 30 years at fixed rates of interest, as determined at the time of issuance. This program is expected to be replaced by a similar program in 1997. The notes issued under this program are secured by the Twenty-ninth Supplement to the trust indenture relating to PSW's First Mortgage Bonds. During 1996, issuances through this program were as follows: \$10,000 in April 1996, 6.99% Series due 2006; \$10,000 in July 1996, 7.47% Series due 2003; and \$10,000 in November 1996, 6.83% Series due 2003. During 1995, issuances were as follows: \$15,000 in May 1995, 7.72% Series due 2025; \$10,000 in June 1995, 6.82% Series due 2005; and \$12,000 in December 1995, 6.89% Series due 2015. The proceeds from these issuances were used to fund acquisitions, the retirement of the First Mortgage Bonds noted below and PSW's ongoing capital program.

In August 1995, PSW issued \$22,000 First Mortgage Bonds 6.35% Series due 2025 as security for an equal amount of bonds issued by the Delaware County Industrial Development Authority. The proceeds from these bonds were restricted to funding the costs of certain capital projects. As of December 31, 1995, the Trustee for this issue held \$1.8 million in an interest bearing account pending completion of the remainder of the projects financed with this issue. The amount held by the Trustee was included in the balance sheet as cash. During 1996, these projects were completed and all funds were released by the trustee.

In January 1996, PSW retired \$5,000 of First Mortgage Bonds, 7.875% Series due 1997, at a premium of .331% or \$17 and \$4,150 of First Mortgage Bonds, 8.4% Series due 2002, at a premium of 2.1% or \$87. In April 1996, PSW retired \$10,000 of First Mortgage Bonds, 10.65% Series due 2006, at a premium of 5.04% or \$504. In August 1995, PSW retired \$8,000 of First Mortgage Bonds, 13% Series due 2005, at a premium of 6.1% or \$488. The unamortized bond issuance expenses related to the retirements in 1996 and 1995 were \$25 and \$35, respectively. The premiums paid on the early retirement of debt, along with the

related unamortized bond issuance expense, are capitalized and amortized, in accordance with the Uniform System of Accounts prescribed by the PUC, over the life of the long-term debt used to fund the redemption.

In February 1994, PSW entered into a \$30,000 revolving credit agreement due March 1998 with four banks. The agreement was amended to temporarily increase the available borrowings under this facility by \$20,000 during a one-year period beginning in December 1996 as interim financing for the Bristol acquisition. The agreement had previously been increased by \$10,000 during the period May 1995 to August 1995 as interim financing for the Media acquisition. Interest under this facility is based, at PSW's option, on the prime rate, an adjusted federal funds rate, an adjusted certificate of deposit rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. This agreement restricts the total amount of short-term borrowings of PSW. A commitment fee of 1/8 of 1% is charged on the unused portion of the loan. The average cost of borrowing under this facility was 6.02% and 6.42%, and the average borrowing was \$14,326 and \$22,755, during 1996 and 1995, respectively. The maximum amount outstanding at the end of any one month was \$39,727 in 1996 and \$36,800 in 1995.

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#### PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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At December 31, 1996 and 1995, the Company and PSW had combined short-term lines of credit of \$10,000. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was \$5,123 and \$5,720 during 1996 and 1995, respectively. The maximum amount outstanding at the end of any one month was \$6,820 in 1996 and \$8,615 in 1995. 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 1996 and 1995 was 6.1% and 6.8%, respectively.

The total amount of interest paid on all borrowings, net of amounts capitalized, was \$15,503, \$14,923 and \$13,729 in 1996, 1995 and 1994, respectively. The proforma weighted cost of long-term debt at December 31, 1996 and 1995 was 7.7% and 8.0%, respectively.

#### Preferred Stock of Subsidiary with Mandatory Redemption Requirements

-----

PSW is authorized to issue up to 1,000,000 shares of preferred stock, with stated par value, in one or more series. In 1991, PSW issued 100,000 shares of 8.66% Series 1 Cumulative Preferred Stock, at par value of \$100 per share in a private placement. Dividends on this issue are payable quarterly and are cumulative. PSW may not pay dividends on its common stock unless provision has been made for payment of the preferred dividends. As of December 31, 1996, all preferred dividends have been provided for. These shares are subject to mandatory annual redemption equal to the par value of 14,285 shares plus accrued dividends. In addition, PSW has exercised its right to call 14,285 shares per year starting in 1995, up to a maximum of 15,000 shares over the life of the issue, at par. The balance may be called, beginning in 1998, at a specified price above par.

In December 1996, PSW provided notice to the holder of the preferred stock of its intention to call 14,285 shares at par in January 1997 as required by the share purchase agreement and, therefore, \$1,429 has been classified as the current portion of preferred stock as of December 31, 1996. In January 1996, PSW called 715 shares at par value in addition to the mandatory redemption of 14,285 shares required by the share purchase agreement.

#### Fair Value of Financial Instruments

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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, 1996 are as follows:

	Carrying amount	Estimated fair value
Long-term debt	\$ 229,962	\$ 241,074
Preferred stock of subsidiary with mandatory redemption requirements	\$ 5,643	\$ 5,762

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The fair value of long-term debt and mandatorily redeemable 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 \$23,524 and \$6,426, respectively at December 31, 1996. Their relative fair values cannot be accurately estimated since future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2018 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Stockholders' Equity

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

In May 1996, the Company's shareholders approved an increase in the number of shares of common stock authorized from 20,000,000 shares to 40,000,000 shares and the Company's Board of Directors declared a three-for-two common stock split effected in the form of a 50% stock distribution for all common shares outstanding, to shareholders of record on June 18, 1996. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on July 10, 1996. The Company's par value of \$.50 per share remained unchanged and \$3,140 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

Shares outstanding at December 31, 1996, 1995 and 1994 were 19,198,579, 18,283,122 and 17,576,985, respectively. Treasury shares held at December 31, 1996, 1995 and 1994 were 262,230, 259,125 and 240,737, respectively.

## PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Total
Balance at December 31, 1993	\$ 5,783	\$ (1,257)	\$ 95,918	\$ 35,490	\$ 135,934
Net income	-	-	-	15,638	15,638
Dividends	-	-	-	(12,637)	(12,637)
Sale of stock	175	248	6,022	-	6,445
Repurchase of stock	-	(2,230)	-	-	(2,230)
Equity Compensation Plan	5	-	174	-	179
Exercise of stock options	16	-	450	-	466
Balance at December 31, 1994	5,979	(3,239)	102,564	38,491	143,795
Net income	-	-	-	18,400	18,400
Dividends	-	-	-	(13,546)	(13,546)
Sale of stock	217	392	7,621	-	8,230
Repurchase of stock	-	(733)	-	-	(733)
Equity Compensation Plan	1	-	31	-	32
Exercise of stock options	27	-	771	-	798
Balance at December 31, 1995	6,224	(3,580)	110,987	43,345	156,976
Net income	-	-	-	20,722	20,722
Dividends	-	-	-	(14,795)	(14,795)
Stock split	3,140	-	(3,140)	-	-
Sale of stock	298	693	11,546	-	12,537
Repurchase of stock	-	(760)	-	-	(760)
Equity Compensation Plan	1	-	38	-	39
Exercise of stock options	68	-	2,008	-	2,076
Balance at December 31, 1996	\$ 9,731	\$ (3,647)	\$ 121,439	\$ 49,272	\$ 176,795

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, 755,725, 651,051 and 526,227 shares of common stock were sold providing the Company with \$12,280, \$7,846 and \$6,191 of additional capital, after expenses, during 1996, 1995 and 1994, respectively.

In 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 remaining number of shares authorized for purchase was adjusted as a result of the 1996 stock split so that the total number of shares originally authorized for purchase is 277,615. The number of shares purchased by the Company, if any, is limited to the number of shares sold under its employee stock option and stock purchase plans, Customer Stock Purchase Program and

## PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

Dividend Reinvestment Program and Optional Stock Purchase Program. The purchase of shares has been authorized in order to offset the dilutive effect on earnings per share of issuances of additional shares under the programs described above. Funding for any stock purchases is not expected to have a material impact on the Company's financial position. During 1996, 1995 and 1994, 3,254, 59,184 and

178,301 shares have been purchased at a net cost of \$52, \$733 and \$2,230, respectively. For comparative purposes the number of shares purchased is presented as if they were adjusted for the effect of the 1996 stock split. As of December 31, 1996, 79,879 shares remain available for purchase by the Company.

Net Income per Common Share and Equity per Common Share  
-----

Net income per common 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. All share and per share data has been adjusted to reflect the 1996 stock split described in the Stockholders' Equity Footnote.

Equity per common share was \$9.21 and \$8.59 at December 31, 1996 and 1995, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan  
-----

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 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.

Employee Stock and Incentive Plans  
-----

Under the 1994 Equity Compensation Plan ("1994 Plan"), as amended, the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors. In May 1996, the Shareholders authorized an increase to the number of shares from 675,000 shares to 1,425,000 shares of common stock for issuance under the 1994 plan, with the maximum number of restricted stock grants limited to 37,500 shares. Awards under this plan are made by the Board of Directors ("Board") or a committee of the Board.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)  
(In thousands of dollars, except per share amounts)  
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Options under the 1994 plan, as well as the earlier 1988 Stock Option Plan and 1982 Stock Option Plan for which 12,000 options are still outstanding, were issued at the market price of the stock on the day of the grant. Options are exercisable in installments ranging from 20% to 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant.

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

	1996	1995	1994
Options granted	190,500	180,750	173,250
Options terminated	(28,602)	-	(10,500)
Options exercised	(180,151)	(79,968)	(48,704)
Net change	(18,253)	100,782	114,046
Balance of shares under option	773,026	791,279	690,497

Options exercised during 1996 ranged in price from \$8.63 per share to \$11.96 per share. The shares under option at December 31, 1996 are exercisable at prices ranging from \$8.63 to \$16.37 per share. At December 31, 1996, 309,542 shares were exercisable, and 874,152 options under the 1994 Plan were still available for grant.

In 1996, the Company adopted SFAS No.123, "Accounting for Stock-Based Compensation" electing to continue to apply the provisions of APB Opinion No. 25 and to provide the proforma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income available to common stock and net income per share would have been reduced to the proforma amounts indicated below:

	Years Ended December 31,	
	1996	1995
Net income available to common stock:		
As reported	\$ 20,722	\$ 18,400
Proforma	20,337	18,048
Net income per share:		
As reported	\$ 1.09	\$ 1.02
Proforma	1.07	1.00

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The per share weighted-average fair value at the date of grant for stock options granted during 1996 and 1995 was \$2.02 and \$1.95 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

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

Dividend equivalents provide the grantee with an amount equal to the dividends paid on a share of common stock over a specified period of time, not to exceed four years, multiplied by the number of dividend equivalents awarded. Payments of these awards are deferred until the completion of certain objectives during a performance period established by a Committee of the Board at the time of grant. A performance period is generally four years but may be adjusted by the Committee to as long as eight years or as short as two years depending on

the Company's success in completing the objectives. Dividend equivalents are "compensatory" and, as such, are charged to operating expense over the performance period. The effect of changes to the performance period are accrued when known or projected. The Board granted 74,250, 68,250 and 65,250 dividend equivalents in 1996, 1995 and 1994, respectively, and costs associated with these awards were \$234 in 1996, \$197 in 1995 and \$77 in 1994. During 1996, payments under the 1994 award began and \$124 was paid to recipients during the year.

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 1996 and 1995, 2,400 and 2,700 shares of restricted stock were granted with a restriction period of six months and during 1994, 15,000 shares of restricted stock were granted with restriction periods of one to three years. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant less payments made by the grantee and this amount is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

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

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

The Company's pension expense includes the following components:

	Years Ended December 31,		
	1996	1995	1994
Benefits earned during the year	\$ 1,373	\$ 905	\$ 1,183
Interest cost on projected benefit obligation	3,523	3,304	3,161
Actual return on plan assets	(6,784)	(9,256)	1,218
Net amortization and deferral	2,904	6,029	(4,679)
Capitalized costs	(34)	(133)	(74)
Rate-regulated adjustment	(707)	(311)	(386)
Net pension cost	\$ 275	\$ 538	\$ 423

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

The assets and obligations of the plans are as follows:

December 31,	
1996	1995



Accumulated benefit obligation:		
Vested	\$ 38,991	\$ 38,096
Non-vested	2,210	2,312
	-----	-----
Total	\$ 41,201	\$ 40,408
	=====	=====
Projected benefit obligation	\$ 51,321	\$ 50,585
Plan assets at fair value, primarily equity and fixed income commingled funds	51,249	46,698
	-----	-----
Plan assets less than projected benefit obligation	72	3,887
Unrecognized net gain (loss) from past experience different from that assumed and effects of changes in assumptions	3,522	(1,151)
Unrecognized prior service cost	(1,378)	(1,465)
Rate-regulated adjustment	(1,095)	(388)
Unrecognized net obligation	(453)	(541)
	-----	-----
Accrued pension costs included in other current liabilities	\$ 668	\$ 342
	=====	=====

The accumulated and projected benefit obligations were calculated using the projected unit credit method and reflect the following assumptions: discount rates of 7.25% for 1996, 7% for 1995 and 8.5% for 1994; increase in future compensation levels of 5.5% for all years presented; and long-term rate of return on assets of 9% for all years presented.

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

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PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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

	Years Ended December 31,		
	1996	1995	1994
	-----	-----	-----
Benefits earned during the year	\$ 296	\$ 208	\$ 359
Interest cost	872	994	1,077
Return on plan assets	(173)	(101)	-
Net amortization and deferral	567	655	743
Amortization of regulatory asset	136	136	74
	-----	-----	-----
Gross PBOP cost	1,698	1,892	2,253
Capitalized costs	(79)	(94)	(45)
Adjustment to recognize future rate recovery	-	-	(760)
	-----	-----	-----
Net PBOP cost	\$ 1,619	\$ 1,798	\$ 1,448
	=====	=====	=====

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

	December 31,	
	1996	1995
	-----	-----
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 6,246	\$ 8,011
Fully eligible active employees	3,325	4,075

Other employees	3,045	2,699
Total APBO	12,616	14,785
Fair value of plan assets	3,500	2,267
APBO in excess of plan assets	9,116	12,518
Unrecognized net transition obligation	(11,894)	(12,638)
Unrecognized net gain	4,974	2,367
Accrued PBOP cost included in other liabilities	\$ 2,196	\$ 2,247

The APBO is calculated utilizing the following assumptions: discount rate of 7.25%; medical inflation rates of 5% for those employees not eligible by December 31, 1993, and 9%, reducing to 4.5% by 2002 for all others; a 9% return on plan assets in 1996 and 1995, and, in 1994, no return on plan assets. The effect of a 1% increase in the assumed medical inflation rates would be to increase the APBO and the 1996 PBOP costs by \$906 and \$72, respectively. The Company funds its gross PBOP cost through various trust accounts.

Water Rates  
- - - - -

PSW was permitted by the PUC to increase its base rates by 5.3% and 9.05% effective October 27, 1995 and June 17, 1994, respectively. These rate increases were calculated to provide additional annual revenues of approximately \$6,150 and \$9,050, respectively.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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

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

In August 1996, the PUC approved PSW's request to add a "Distribution System Improvement Charge" or "DSIC" to its water bills. The DSIC will enable PSW to add a surcharge to customer bills beginning January 1, 1997 reflecting the capital costs and depreciation related to certain distribution system improvement projects completed and placed into service during the period September 1 through November 30, 1996. PSW is permitted to request adjustments to the DSIC quarterly to reflect subsequent capital expenditures and it is reset to zero when new base rates that reflect the costs of those additions become effective. The maximum DSIC that can be in effect at any time is 5%. The initial charge effective January 1, 1997 is .5% (one half of one percent).

Discontinued Operations  
- - - - -

The Board of Directors had authorized the sale of substantially all of the Company's non-regulated businesses and the last of these businesses was sold in 1993. At the time the Board of Directors authorized the sale of these businesses, the Company established reserves for: projected operating losses of these businesses subsequent to their sale authorizations; estimated losses on the sale transactions; and certain future costs, including administrative and legal services related to the sales, contingent legal and lease obligations and certain employee costs. These reserves were recorded on the balance sheet net of related income tax benefits. During 1996 and 1995, \$18 and \$178 of payments associated with discontinued operations were charged to the reserve and contingent sale proceeds of \$337 received in 1996 were credited to the reserve.

As a result of the continuing assessment of asserted and unasserted legal claims related to these businesses, the passage of time, which reduced certain lease contingencies, and the receipt of contingent sale proceeds, the Company has determined that, the net reserves were in excess of estimates of

potential costs. In 1996 and 1995, the Company reversed \$965 and \$370 net of related income taxes, of these reserves. At December 31, 1996 there remains a balance in the reserve for discontinued operations of \$1,003 which is included in other accrued liabilities.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(In thousands of dollars, except per share amounts)

Selected Quarterly Financial Data (Unaudited)

(in thousands of dollars, except per share amounts)

	First	Second	Third	Fourth	Total Year
1996					
Earned revenues	\$ 29,290	\$ 30,683	\$ 30,831	\$ 31,699	\$ 122,503
Operating expenses	13,070	12,614	11,757	14,174	51,615
Income, continuing operations	3,968	5,281	5,847	4,661	19,757
Income per share, continuing operations	0.21	0.28	0.31	0.24	1.04
Income, discontinued operations	-	-	365	600	965
Income per share, discontinued operations	-	-	0.02	0.03	0.05
Net income available to common stock	3,968	5,281	6,212	5,261	20,722
Net income per common share	0.21	0.28	0.33	0.27	1.09
Dividend paid per common share	0.193	0.193	0.2025	0.2025	0.791
Price range of common stock					
- high	15.42	16.75	17.25	19.88	19.88
- low	13.67	15.00	15.50	16.50	13.67
1995					
Earned revenues	\$ 25,712	\$ 28,827	\$ 32,355	\$ 30,150	\$ 117,044
Operating expenses	11,766	12,357	13,793	13,786	51,702
Income, continuing operations	3,315	4,659	5,732	4,324	18,030
Income per share, continuing operations	0.19	0.26	0.32	0.23	1.00
Income, discontinued operations	-	-	-	370	370
Income per share, discontinued operations	-	-	-	0.02	0.02
Net income available to common stock	3,315	4,659	5,732	4,694	18,400
Net income per common share	0.19	0.26	0.32	0.25	1.02
Dividend paid per common share	0.186	0.186	0.193	0.193	0.758
Price range of common stock					
- high	12.17	12.50	12.42	14.33	14.33
- low	11.59	11.75	11.75	12.00	11.59

All per share data as presented has been adjusted for the 1996 common stock split effected in the form of a stock distribution. High and low prices of the Company's common stock are as traded on the New York Stock Exchange.

PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

The following table lists all of the subsidiaries of the Company at December 31, 1996:

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

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors  
Philadelphia Suburban Corporation

We consent to incorporation by reference in the Registration Statements on Form S-8 (1994 Equity Compensation Plan No. 033-53689), (1994 Employee Stock Purchase Plan No. 033-52557), (1988 Stock Option Plan No. 33-27032), (1982 Stock Option Plan No. 2-81757); on Form S-3D (Dividend Reinvestment and Optional Stock Purchase Plan No. 33-64281); and on Form S-3 (Customer Stock Purchase Plan No. 33-64301) of Philadelphia Suburban Corporation of our report dated February 3, 1997, related to the consolidated balance sheets and the statements of capitalization of Philadelphia Suburban Corporation and subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1996, which report is incorporated by reference in the December 31, 1996 Annual Report on Form 10-K of Philadelphia Suburban Corporation.

KPMG PEAT MARWICK LLP

Philadelphia, Pennsylvania  
March 24, 1997

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This schedule contains summary financial information extracted from the consolidated balance sheets and the statements of capitalization at December 31, 1996, and the consolidated statements of income and cash flow for the year ended December 31, 1996, and is qualified in its entirety by reference to such financial statements.

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<NAME> PHILADELPHIA SUBURBAN CORPORATION AND SUBSIDIARIES

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