



AMERICAN WATER

NYSE: AWK

2013 First-Quarter Earnings Conference Call

May 8, 2013



Edward D. Vallejo

Vice President Investor Relations

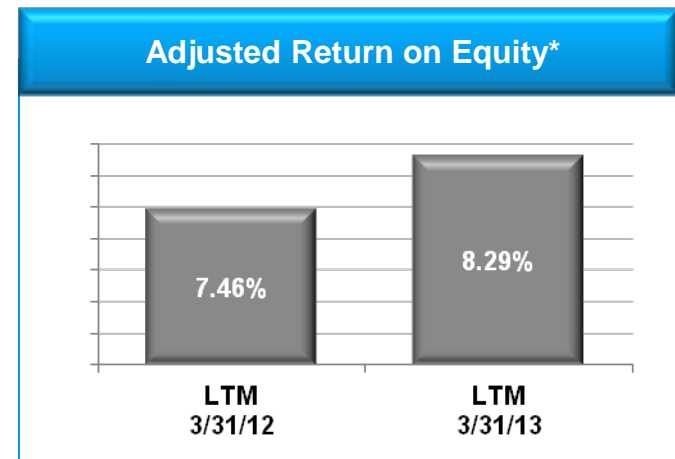
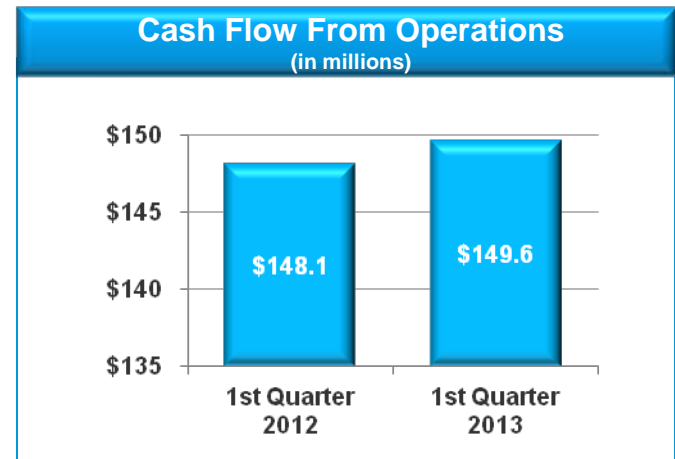
Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this presentation are forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are predictions based on American Water's current expectations and assumptions regarding future events and may relate to, among other things, its future financial performance, including earnings, growth and portfolio optimization strategies, its ability to finance current operations and growth initiatives, trends in its industry, regulatory or legal developments, capital projects and rate adjustments. Actual results could differ materially because of factors such as the decisions of governmental and regulatory bodies, including decisions to raise or lower rates; the timeliness of regulatory commissions' actions concerning rates; changes in laws, governmental regulations and policies, including environmental, health and water quality, and public utility regulations and policies; weather conditions, patterns or events, including drought or abnormally high rainfall, strong winds and coastal and intercoastal flooding; ; changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts; the company's ability to effect significant changes to its business processes and corresponding technology; its ability to appropriately maintain current infrastructure and manage the expansion of its business; its ability to obtain permits and other approvals for projects; delays in project completion; changes in its capital requirements; its ability to control operating expenses and to achieve efficiencies in its operations; its ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for its operations; its ability to successfully acquire and integrate water and wastewater systems that are complementary to its operations and the growth of its business or dispose of assets or regulatory systems that the company determined should no longer be part of its portfolio; cost overruns relating to improvements or the expansion of its operations; changes in general economic, business and financial market conditions; access to sufficient capital on satisfactory terms; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on the company's current or future debt that could increase its financing costs or affect its ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase its cost and funding requirements; migration of customers into or out of its service territories; difficulty in obtaining insurance on acceptable terms and conditions; its ability to retain and attract qualified employees; the incurrence of impairment charges; labor actions including work stoppages and strikes; and civil disturbance, terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts.

For further information regarding risks and uncertainties associated with American Water's business, please refer to American Water's annual, quarterly and other SEC filings. The company undertakes no duty to update any forward-looking statement.

Jeff Sterba
President and Chief Executive Officer

Summary Financial Performance



* Adjusted Return on Equity reconciliation in appendix of presentation

Our Regulatory Strategy - Earning appropriate return on investments while promoting constructive regulatory frameworks

❑ Earning appropriate return on our Capital

- Filed 3 rate cases in 2Q 13: Pennsylvania, Iowa and California requesting revenue increase of \$97.7 million

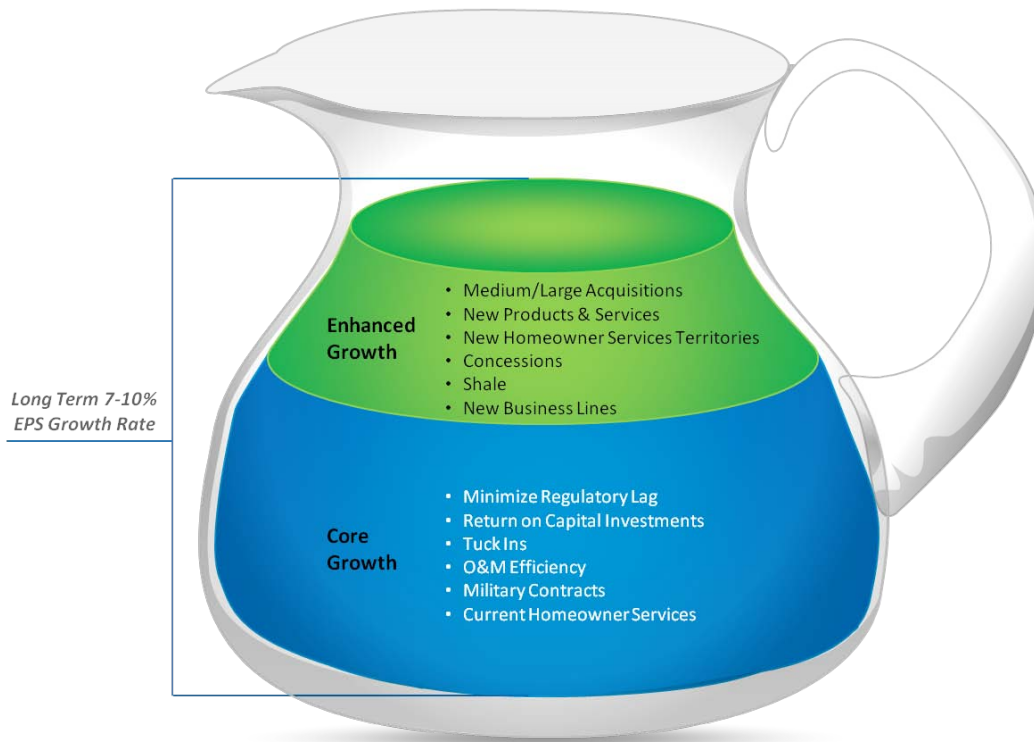
❑ Disciplined approach to O&M cost controls enables us to increase our Capital Spend

- O&M Efficiency Ratio at 40% for Last Twelve Months period

❑ Reduce regulatory lag impact to encourage robust investment in needed water infrastructure

- 39% of projected \$800 Million to 1\$ Billion Capex expected to be recovered through surcharge costs
- Largest three subsidiaries – Pennsylvania, New Jersey and Missouri - have surcharge recovery mechanism
- Regulatory lag reduced to approximately 80 basis points for last twelve months

Growing the Business: Quarter Achievements and Drivers of 7-10% Long Term EPS Growth Goal



Core Growth

Regulated

- Five Tuck Ins completed
 - *California, Indiana, Missouri & Pennsylvania*

Market Based

- Homeowner Services tops 1 million customers

Enhanced Growth

Regulated

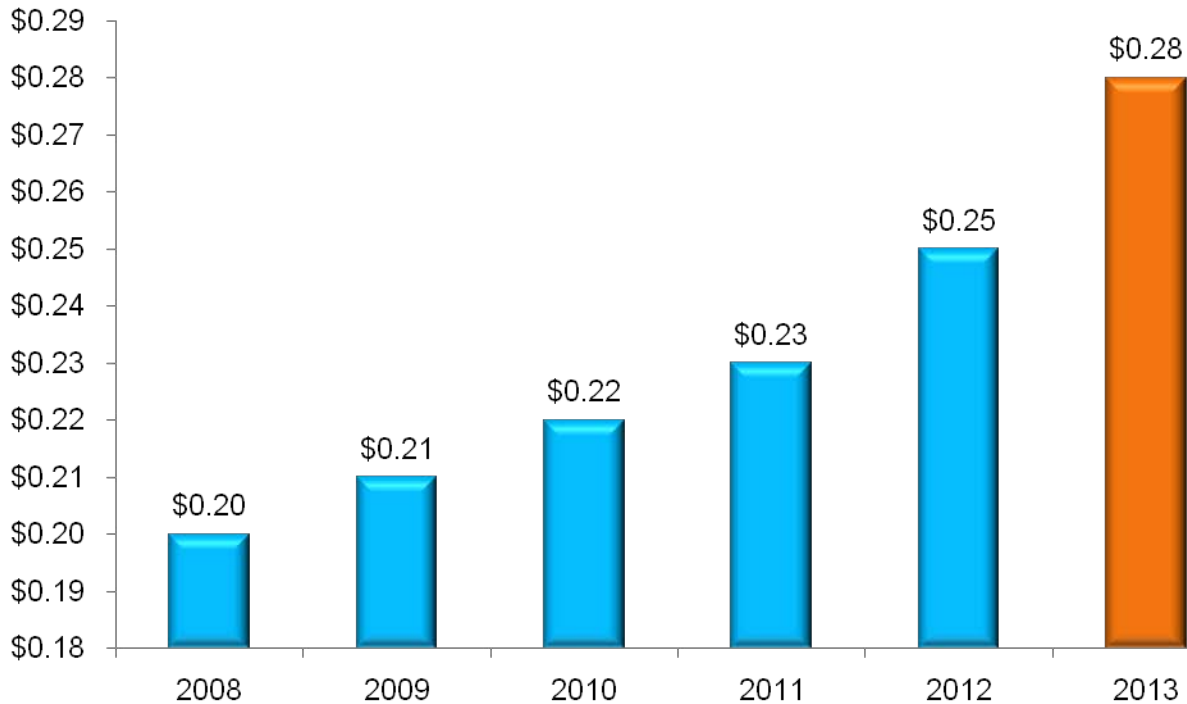
- Dale Services acquisition signed
 - *20,000 wastewater customers*

Shale Gas

- Entered into third pipeline extension with XTO Energy
- Five new points of interconnection

Dividend Growth Offers Long-Term Shareholder Value

Historical Dividend Rate Increases




Dividend Philosophy

- Future dividend increases aligned with EPS growth
- Payout ratio between 50-60 percent of net income

Increased the Company's quarterly dividend to shareholders by 12 percent to \$0.28 per share, payable June 3d to all shareholders of record as of May 24, 2013

Outlook: Reaffirming 2013 Annual EPS Guidance



**2013 Guidance:
Diluted EPS
Continuing
Operations
\$2.15 - \$2.25**



**Long-term Goal
of 7%-10% EPS
growth rate**

Susan N. Story
Senior Vice President
and Chief Financial Officer

2013 First Quarter Financial Results

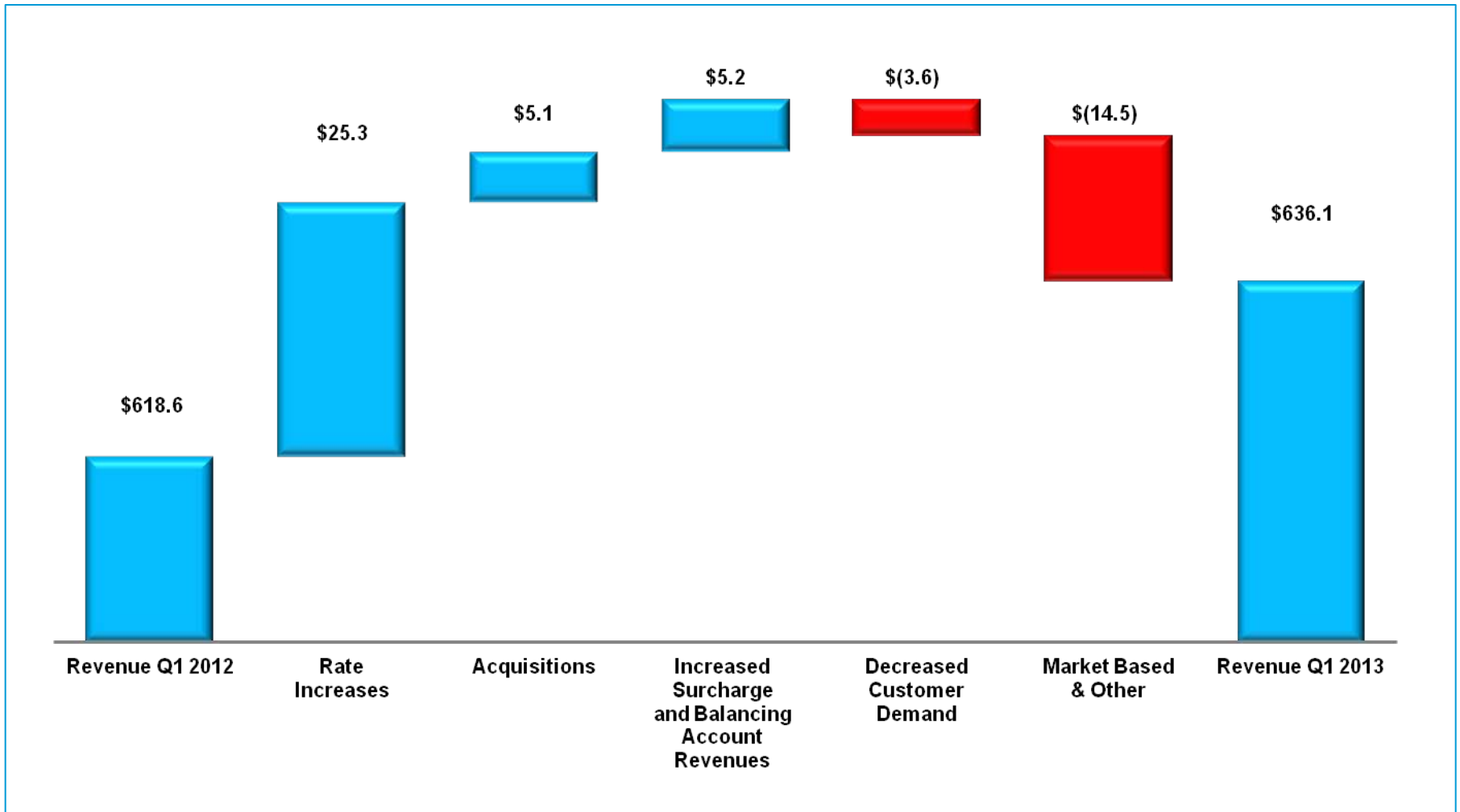
<i>(In thousands, except per share data)</i>	For the Three Months Ended March 31,	
	2013	2012
Revenue	\$636,137	\$618,554
Operating Income	\$164,233	\$159,738
Operating Income Margin %	25.8%	25.8%
Net Income	\$57,643	\$41,754
Income From Continuing Operations	\$57,643	\$49,252
Common dividends paid	\$0 ⁽²⁾	\$40,414
Average common shares outstanding during the period: (Diluted)	178,465	177,028
Diluted Earnings per common share – Net Income	\$0.32	\$0.24
Diluted Earnings per common share – Income from Continuing Ops	\$0.32	\$0.28
Cash flows from operating activities	\$149,625	\$148,099

(1) Non-GAAP measure see table in Appendix for calculation

(2) Note: an accelerated dividend payment for the first quarter of 2013 was paid on December 28, 2012

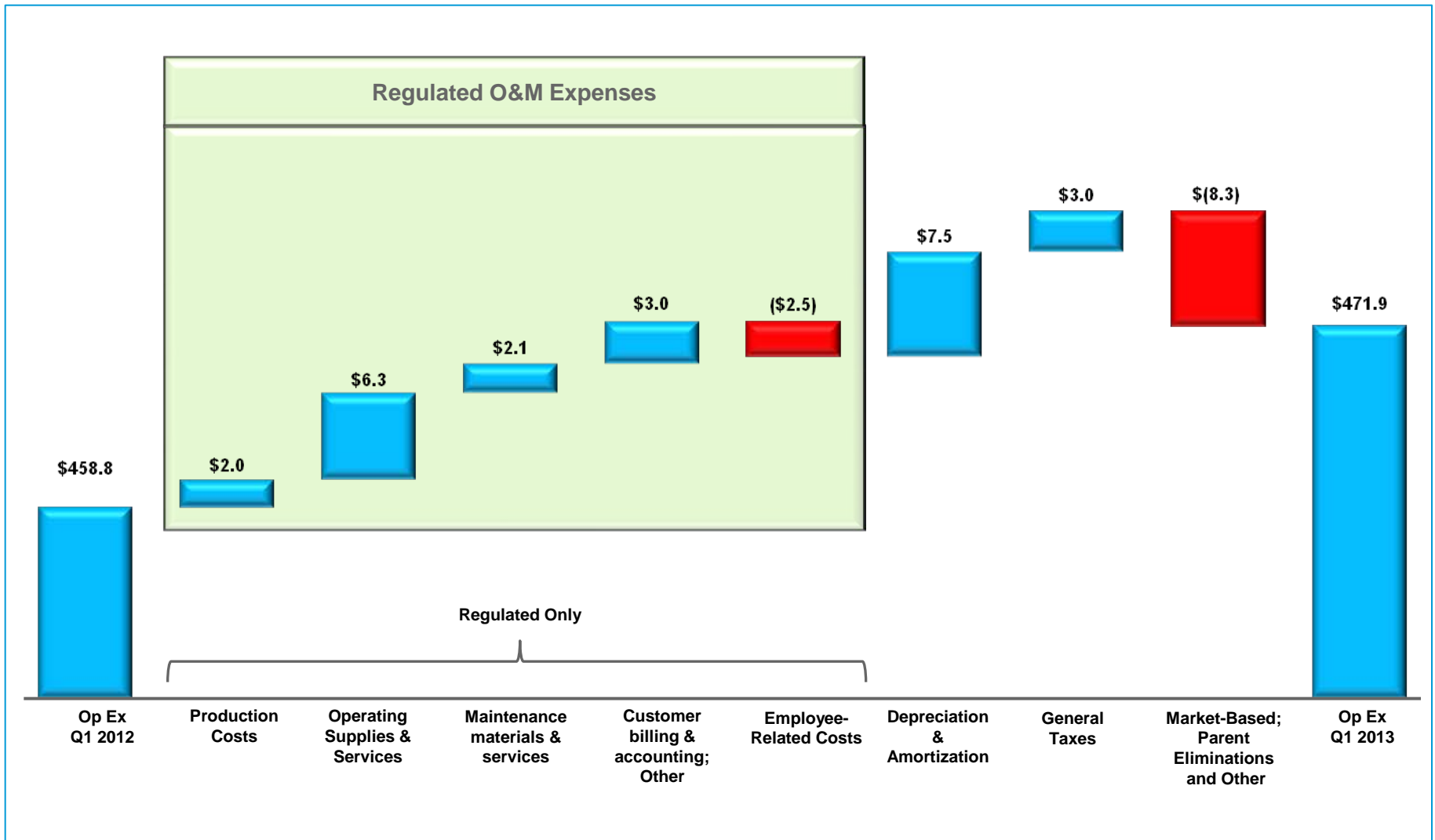
2013 First Quarter Revenue Breakdown

(\$ in millions)



2013 First Quarter Expense Breakdown

(\$ in millions)



May 2013

Regulatory Highlights: Rate Cases Update

Rate Cases Awaiting Final Order						
A. Rate Cases Filed in 2013						
Company	Docket / Case Number	Date Filed	Revenue Increase Filed	ROE Requested	Rate Base Filed	
Pennsylvania	Case No. R-2013-2355276	4/30/2013	\$58.6	11.25%	\$2,493.1	
Iowa	Case No. RPU-2013-0002	4/30/2013	6.4	(a) 10.80%	100.7	
California	Case No. A.13-07-xxx	5/1/2013	32.7	(b) N/A	540.3	
			\$97.7		\$3,134.1	
B. Rate Cases Filed in 2012						
West Virginia	Case No. 12-1649-W-42T	12/14/2012	\$24.1	10.90%	\$479.6	
West Virginia WW	Case No. 12-1648-S-42T	12/14/2012	0.5	10.90%	2.2	
Kentucky	Case No. 2012-00520	12/28/2012	12.3	10.90%	386.0	
			\$36.9		\$867.8	
C. Infrastructure Charges Filed in 2013						
	Infrastructure Charges					
	Missouri (ISRS)	2/28/2013	\$5.3			

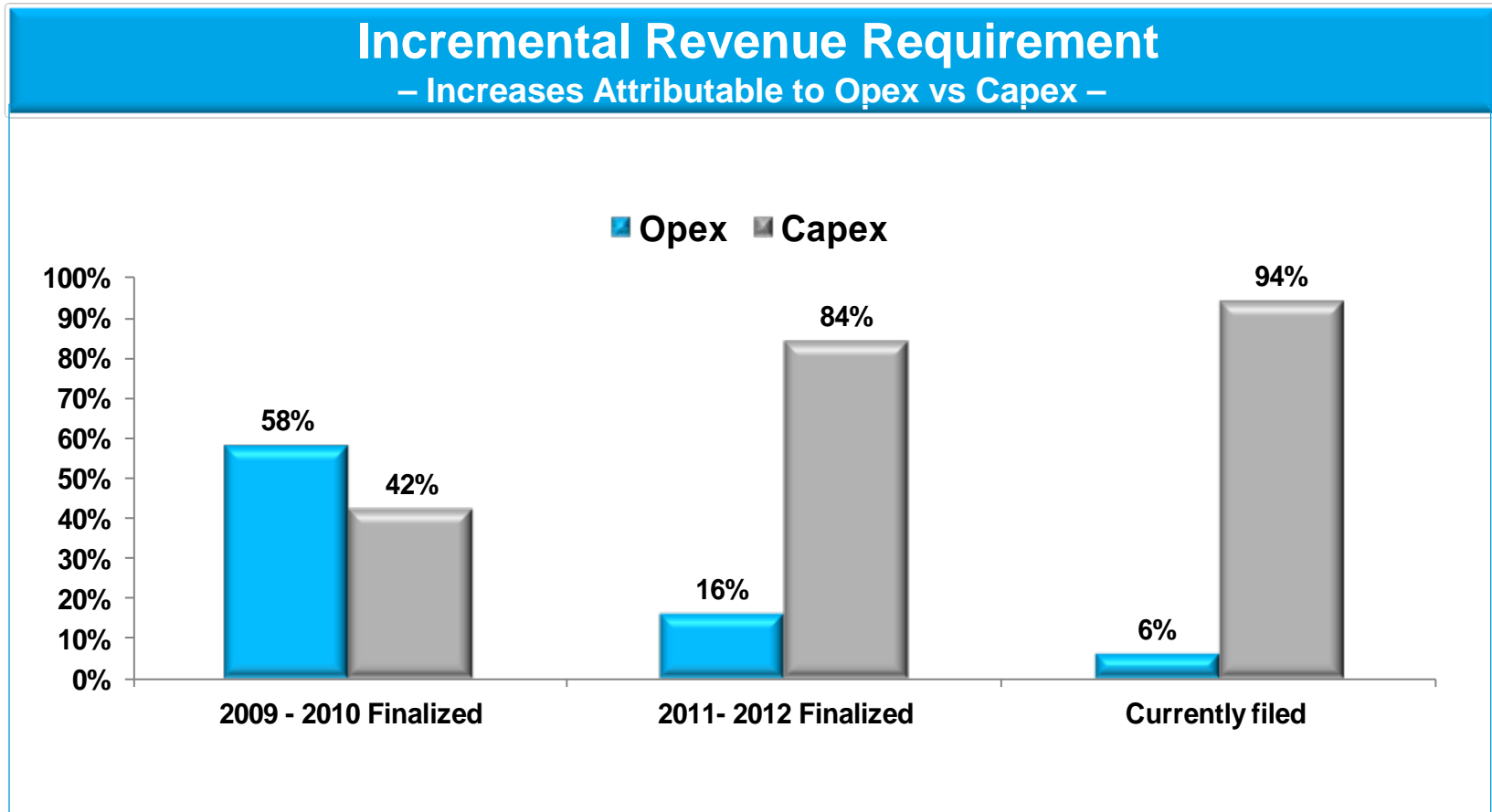
Orders Effective in 2013				
		Date Effective	Revenue Increase	Comments
D. Step Increases				
	California	1/1/2013	\$3.5	2nd Step Increase
	Pennsylvania WW	1/1/2013	2.6	Final Step
	New York	4/1/2013	1.4	2nd Step Increase
			\$7.5	
E. Infrastructure Charges				
	Pennsylvania (DSIC)	1/1/2013	\$6.5	
	Pennsylvania (DSIC)	4/1/2013	2.9	
			\$9.4	

(a) Iowa interim rates will be put into effect under bond subject to refund on 5/10/2013 in the amount of \$2.7 million.

(b) On May 1, 2013 we submitted a proposed application in California requesting additional annualized revenue of \$32.7 million which included staged increases in 2016 and 2017 of \$8.0 million and \$6.5 million, respectively. The rate base amount listed as filed is the average rate base for 2017.

May 2013

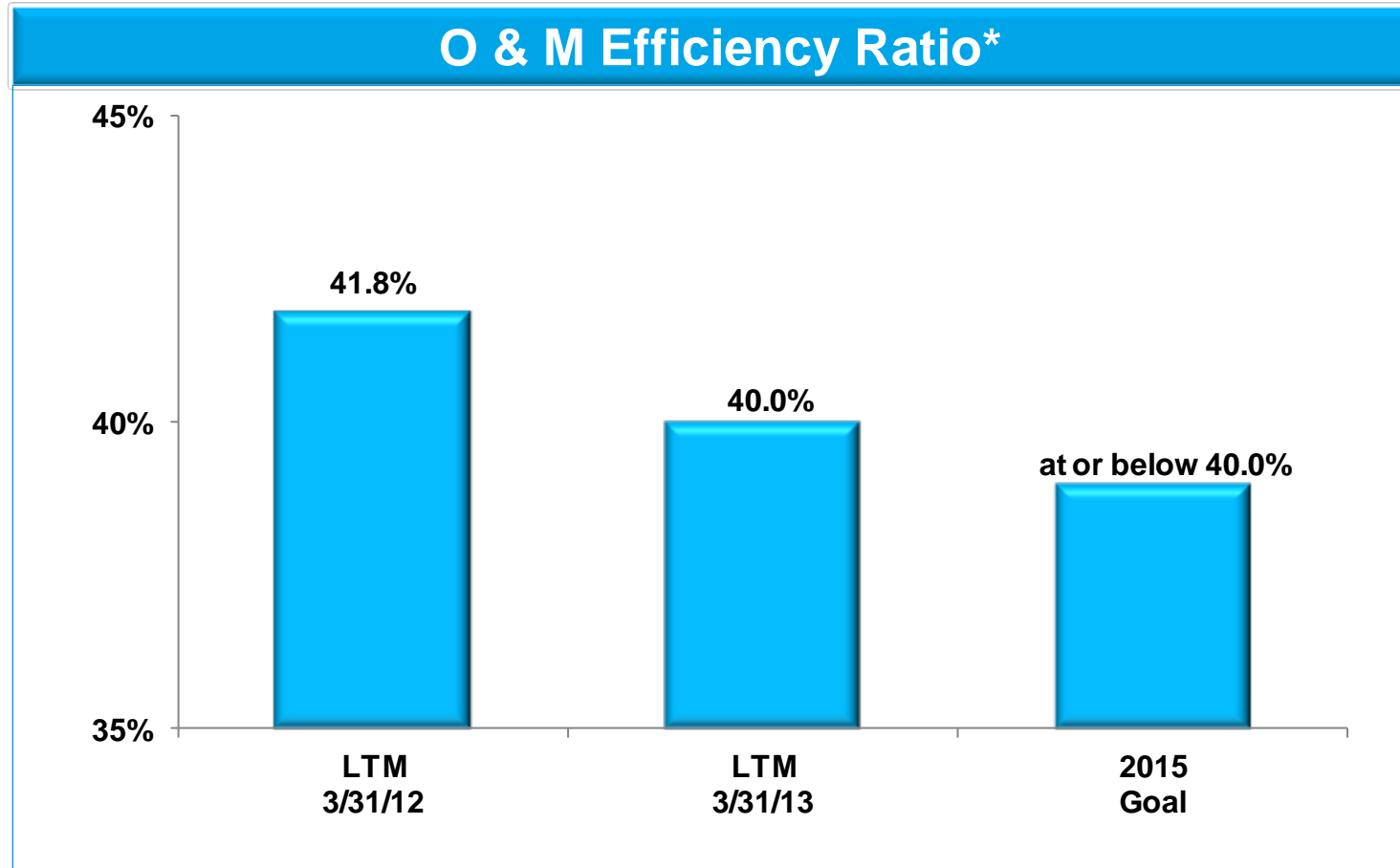
Regulatory Highlights: Disciplined approach to O&M cost controls enables us to increase our Capital Spend



Note:

- Approximation in states where we received black box award

Regulatory Highlights: Regulated O&M Efficiency Ratio Continues to Improve



* Non-GAAP measure see Page 25 in Appendix for reconciliation

American Water 2013 Expectations

You Can Expect Us To

- ❑ **Actively address regulatory lag that impacts return on our investments and promote constructive regulatory frameworks**
 - *Pursue completion of CA, IA, KY, PA, and WV (w&ww) rate cases*
 - *Continue evaluation of appropriate timing for any additional rate case filings, pass-through mechanisms and forward-looking adjustments*
- ❑ **Continue O&M Efficiency Improvement**
 - *Achieve Operations and Maintenance Efficiency Ratio below 40%*
 - *Continue to leverage efficiencies from Business Transformation Project*
- ❑ **Efficient Use of our Capital**
 - *Invest approximately \$950 million to upgrade infrastructure*
 - *Realize savings from the Supply Chain improvement initiatives*
- ❑ **Expand Markets and Develop New Offerings**
 - *Commercialize Innovation Development Process offerings*
 - *Continued Focus on Acquisitions/Tuck-ins*
 - *Continue to leverage water expertise to take advantage of shale gas opportunities*



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Appendix



Historical Rate Case Summary

	Effective Date for new rates	ROE Granted	Annualized Rate Order Amount	
<i>General Rate Cases:</i>				
Michigan	2/1/2012	10.50%	\$0.2	
Iowa	3/13/2012	9.40%	2.8	
Missouri	4/1/2012	10.00%	24.0	
New York - Long Island	4/1/2012	9.65%	3.0	(a)
New Jersey	5/1/2012	10.15%	30.0	
Indiana	6/15/2012	9.70%	1.9	
California	7/12/2012	9.99%	32.9	(b)
Illinois	10/1/2012	9.34%	17.9	
Tennessee	11/1/2012	10.00%	5.2	
Virginia	7/12/2012 (d)	9.75%	2.6	(c)
Subtotal - 2012 General Rate Cases			\$120.5	
<i>Infrastructure Charges Annualized:</i>				
	Date Filed	Date Effective		
Pennsylvania	3/20/2013	10/1/2012	\$10.5	(e)
Missouri	6/27/2012	9/25/2012	4.2	
Indiana	10/1/2012	12/27/2012	3.7	
Subtotal - Infrastructure Charges			\$18.4	
Grand Total			\$138.9	

(a) Includes one year of three year revenue increase beginning 4/1/12, 4/1/13 and 4/1/14 for \$3.0M, \$1.4M and \$1.2M respectively.

(b) \$32.9M (\$4.4M from Cost of Capital order, \$4.1M for Ventura and San Diego effective in 2011, \$24.4M All districts in 2012, incl add'l increase for Ventura & San Diego).

(c) Includes non-jurisdictional components.

(d) Rates Under Bond were effective July 12, 2012 and received final order December 12, 2012. The estimated amount of customer refunds through June 2013 will be \$1.475M.

(e) Reflects the infrastructure filings approved in 2012, does not include the \$6.5M and \$2.9M effective on 1/1/2013 and 4/1/2013, respectively.

Comparison of Water Sales Volume

<u>Customer Class</u>	<u>Billed Water Sales Volumes</u> (In Millions of Gallons)			
	Year to Date			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Percentage</u>
Residential	38,064	38,475	-411	-1.1%
Commercial	16,939	17,259	-320	-1.9%
Industrial	8,883	8,975	-92	-1.0%
Public & Other	11,627	11,726	-99	-0.8%
Total	<u>75,513</u>	<u>76,435</u>	<u>-922</u>	<u>-1.2%</u>

Water sales volumes for the three months ended March 31, 2013 decreased over the same period in the prior year showing a continuation of the 10-year trend of lower usage and conservation

Rate Base Calculation

Rate Base as of March 31, 2013⁽¹⁾		
<i>(\$ in Thousands)</i>		
Net Utility Plant		\$11,641,442
Less		
	Advances for Construction	\$379,280
	CIAC – Contributions in Aid of Construction	\$1,002,408
	Deferred income taxes	\$1,518,408
	Deferred investment tax credits	\$27,533
	Sub Total	\$2,927,629
Rate Base	TOTAL	\$8,713,813
<p>(1) An approximation of rate base, which includes Net Utility Plant not yet included in rate base pending rate case filings/outcomes</p>		

Reconciliation Tables

Adjusted Return on Equity		
(A Non-GAAP Unaudited Number)	For the Twelve Months Ended March 31,	
	2012	2013
<i>(\$ in thousands)</i>		
Net income	\$325,133	\$373,959
Adjustments:		
Less: Cessation of depreciation, net of tax	(\$12,042)	(\$192)
Plus: Parent company goodwill charge associated with discontinued operations, net of tax	\$3,456	-
Adjusted net income	\$316,547	\$373,767
Stockholders' equity	\$4,250,889	\$4,507,942
Less: Cessation of Depreciation	(\$12,042)	(\$192)
Plus: Parent Company goodwill charge associated with discontinued operations, net of tax	\$3,456	-
Adjusted stockholders' equity, net of tax	\$4,242,303	\$4,507,750
Adjusted Return on Equity	7.46%	8.29%

Reconciliation Tables

Regulated O&M Efficiency Ratio (A Non-GAAP Unaudited Number)	For the Twelve Months Ended March 31,	
	2012	2013
<i>(\$ in thousands)</i>		
Total Operations and Maintenance Expense	\$1,300,977	\$1,352,239
Less:		
Operations and Maintenance Expense – Market Based Operations	281,604	268,268
Operations and Maintenance Expense – Other	(66,216)	(57,026)
Total Regulated Operations and Maintenance Expense	\$1,085,589	\$1,140,997
Less:		
Allocation of internal non-O&M costs to Regulated O&M expense	30,869	35,376
Regulated Purchased Water Expense	100,603	111,747
Adjusted Regulated Operations and Maintenance Expense (a)	\$954,117	\$993,874
Total Operating Revenues	\$2,688,075	\$2,894,472
Less:		
Operating Revenues – Market Based Operations	333,014	317,084
Operating Revenues – Other	(27,424)	(18,408)
Total Regulated Operating Revenues	\$2,382,485	\$2,595,796
Less:		
Regulated Purchased Water expense*	100,603	111,747
Adjusted Regulated Operating Revenues (b)	\$2,281,882	\$2,484,049
Regulated O&M Efficiency Ratio (a)/(b)	41.8%	40.0%

*Calculation assumes purchased water revenues approximate purchased water expenses/service company