



AMERICAN WATER

NYSE: AWK

## 2012 Second Quarter Earnings Conference Call

August 3, 2012



**Edward D. Vallejo**  
**Vice President Investor Relations**

August 2012

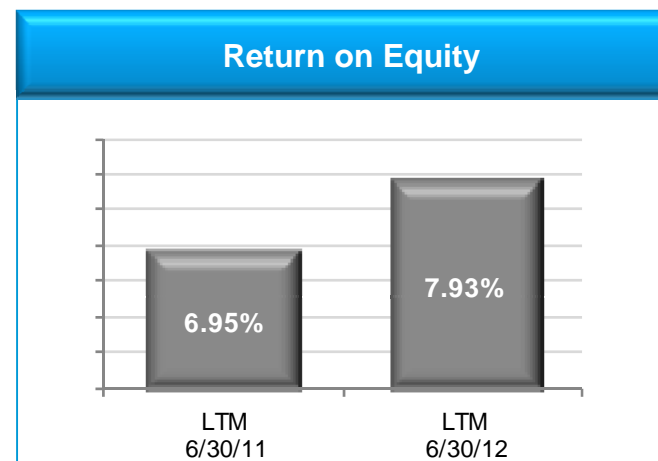
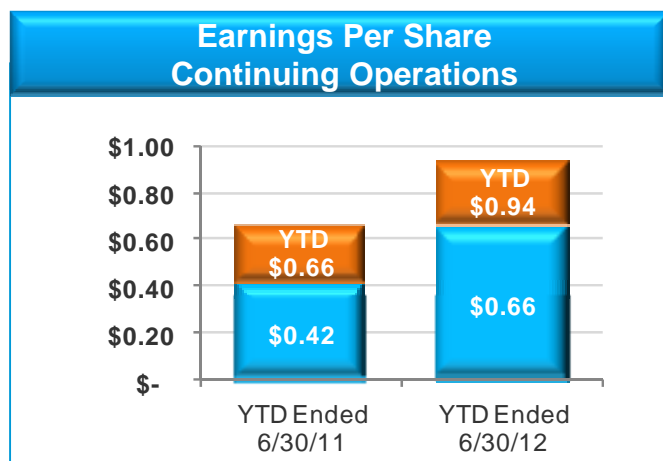
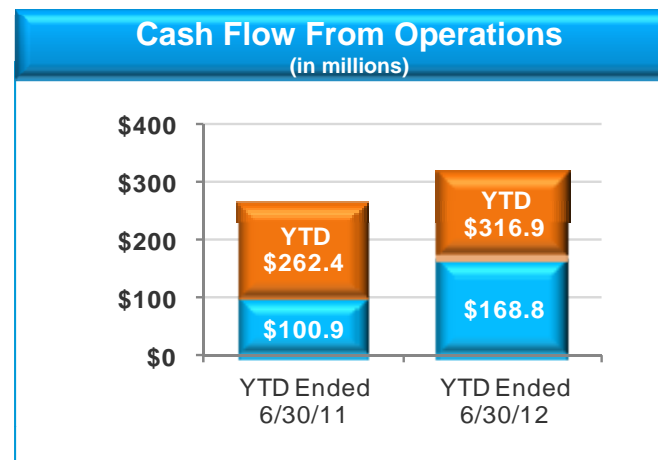
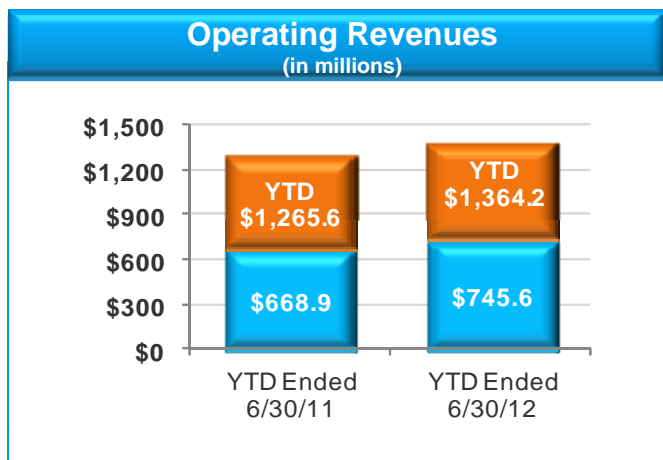
# Cautionary Statement Concerning Forward-Looking Statements

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; 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**

# American Water: Solid Results



Year to date

2<sup>nd</sup> Quarter

# Second Quarter 2012 Highlights and Subsequent Events

## □ Portfolio Optimization and Other Growth Strategies

- Completed New York acquisition and sale of regulated operations in Ohio
- Closed three tuck-ins and a Public Private Partnership contract in Pennsylvania, one tuck-in in Indiana
- Pennsylvania signed potable water pipeline contract with Rex Energy for shale gas development
- Homeowner Services expands footprint with New York City contract

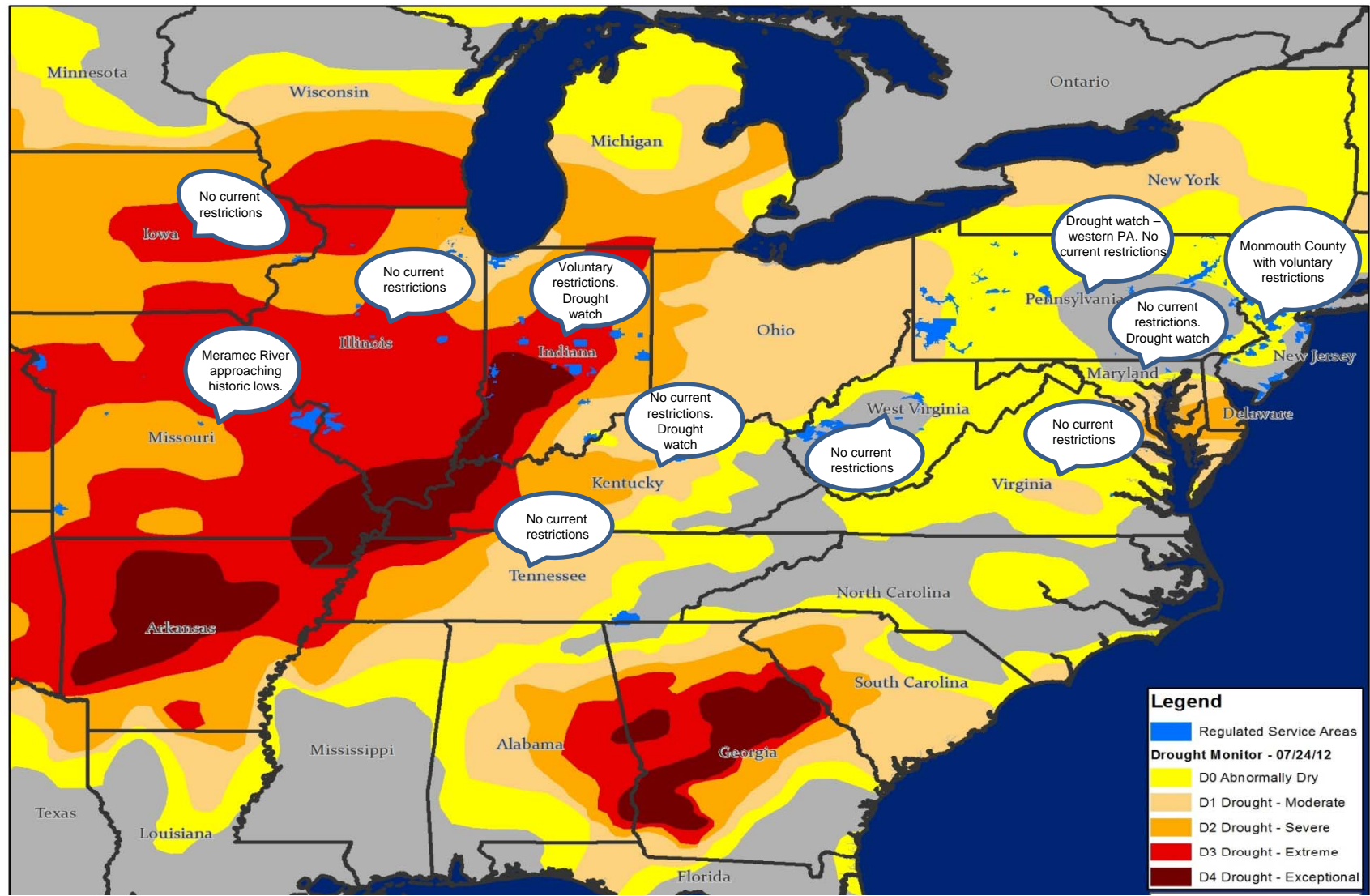
## □ Resolved Rate Cases in New Jersey, Indiana, and California totaling \$60.4 million of annualized revenues; requested \$10.6 million in additional revenues in Tennessee

- Received California rate case approval and cost of capital order; San Clemente Dam proposal approved for an expected \$27 million increase in revenues
- DSIC approved in New Jersey

## □ Improved Regulated O&M Efficiency Ratio to 41.7 percent from 45.2 percent over the last 12 months

## □ Capital expenditures of \$476.3 million in the first six months of 2012 compared to \$391.8 million in the first six months of 2011

# It's pretty hot and dry out there!



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**Ellen C. Wolf**  
**Senior Vice President**  
**and Chief Financial Officer**



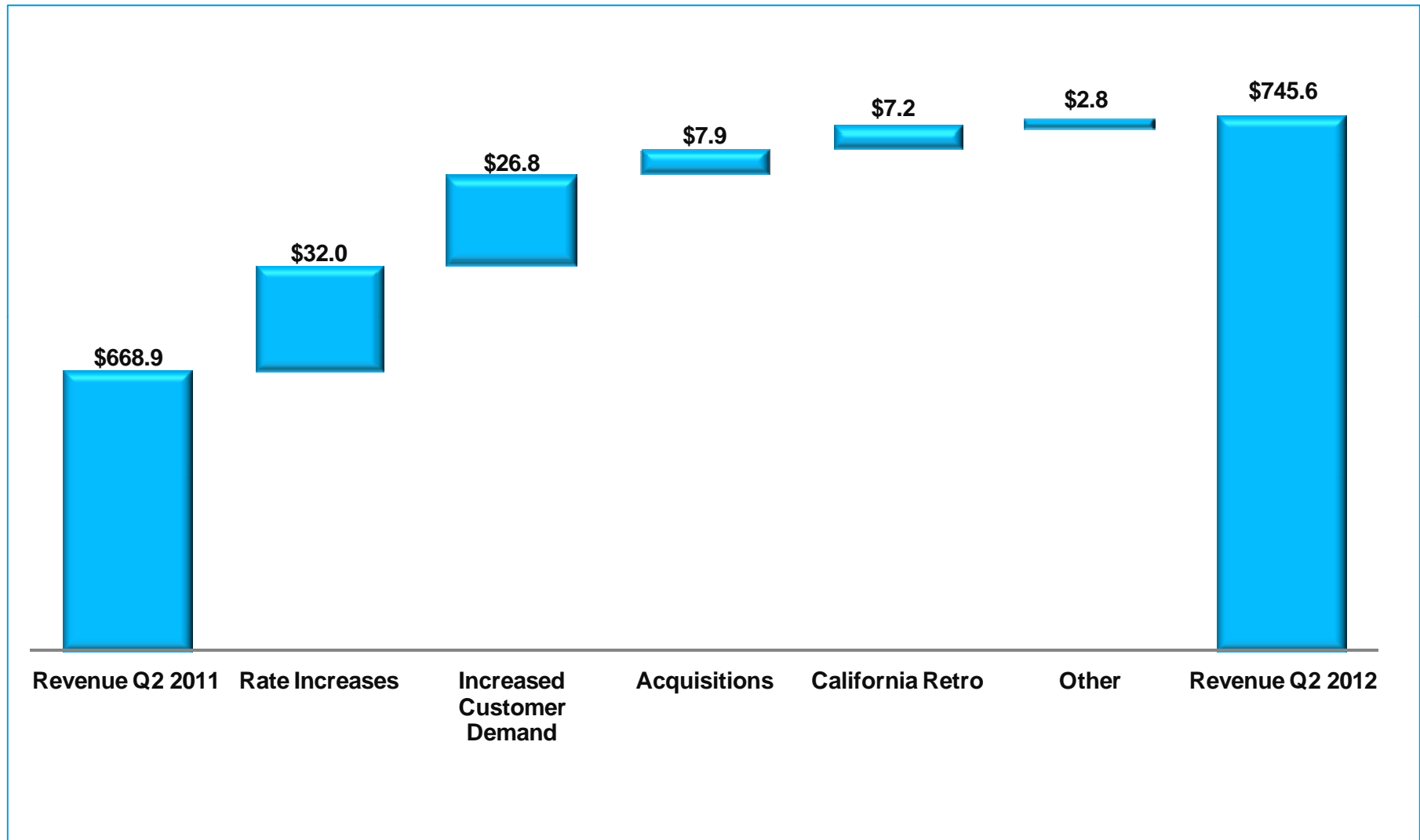
# 2012 Second Quarter Financial Results

<i>(In thousands, except per share data)</i>	For the Three Months Ended June 30,	
	2012	2011
Revenue	\$745,607	\$668,873
Operating Income	\$270,632	\$201,395
Operating Income Margin %	36.3%	30.1%
Regulated O&M efficiency ratio <sup>(1)</sup>	37.9%	43.2%
Net Income	\$107,026	\$81,110
Income From Continuing Operations	\$116,663	\$74,817
Common dividends paid	\$40,529	\$38,580
Average common shares outstanding during the period: Diluted	177,491	176,419
Diluted Earnings per common share – Net Income	\$0.60	\$0.46
Diluted Earnings per common share – Income from Continuing Operations	\$0.66	\$0.42
Cash flows from operating activities	\$168,772	\$100,870

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

# Revenue Breakdown – Second Quarter 2012

(\$ in millions)



Note: Amounts may not sum due to rounding.

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# Rate Case Summary

## Rate Cases Awaiting Final Order (as of August 2, 2012)

	Docket / Case Number	Date Filed	Annualized Revenue Increase Filed	ROE Requested	Rate Base (Filed)	Filing Status
Illinois	Case No. 11-0767	10/27/11	37.8	11.40%	716.1	(b)
Virginia (a)	Case No. PUE-2011-00127	02/06/12	6.0	11.30%	118.5	(c)
Tennessee	Case No. 12-00049	06/01/12	10.6	11.30%	135.8	(c)
<b>TOTAL</b>			<b><u>\$54.4</u></b>		<b><u>\$970.4</u></b>	

(a) Includes \$0.3 million of non-jurisdictional components

(b) Record closed / awaiting final order

(c) Discovery (Data Requests, Investigation)

## Rate Cases and Infrastructure Charges Awarded (as of August 2, 2012)

(\$ in millions) Final Order	Effective Date for new rates	ROE Granted	Annualized Increase Revenue
Michigan	2/1/2012	10.50%	\$0.2
Iowa	3/13/2012	9.40%	2.8
Long Island (a)	4/1/2012	9.65%	3.0
Missouri	4/1/2012	10.00%	24.0
New Jersey	5/1/2012	10.15%	30.0
Indiana	6/15/2012	9.70%	1.9
California (b)	Note	9.99%	32.9
<b>Subtotal - General Rate Cases</b>			<b><u>\$94.8</u></b>
<i>Infrastructure Charges:</i>			
Other: (IL, PA and Other)			<u>\$8.4</u>
<b>Subtotal - Infrastructure Charges</b>			<b><u>\$8.4</u></b>
<b>Total</b>			<b><u>\$103.2</u></b>

(a) Includes one year of three -year revenue increases beginning 4/1/2012, 4/1/2013 and 4/1/2014, for \$3.0 million, \$1.4 million and \$1.2 million, respectively

(b) Interim rates in effect 1/1/2011 for Ventura and San Diego; 1/1/2012 for all districts; \$32.9 million includes \$4.4 from July 2012 cost of capital order, \$4.1 million for Ventura and San Diego effective in 2011, \$24.4 million all districts effective 2012, including additional increase for Ventura and San Diego

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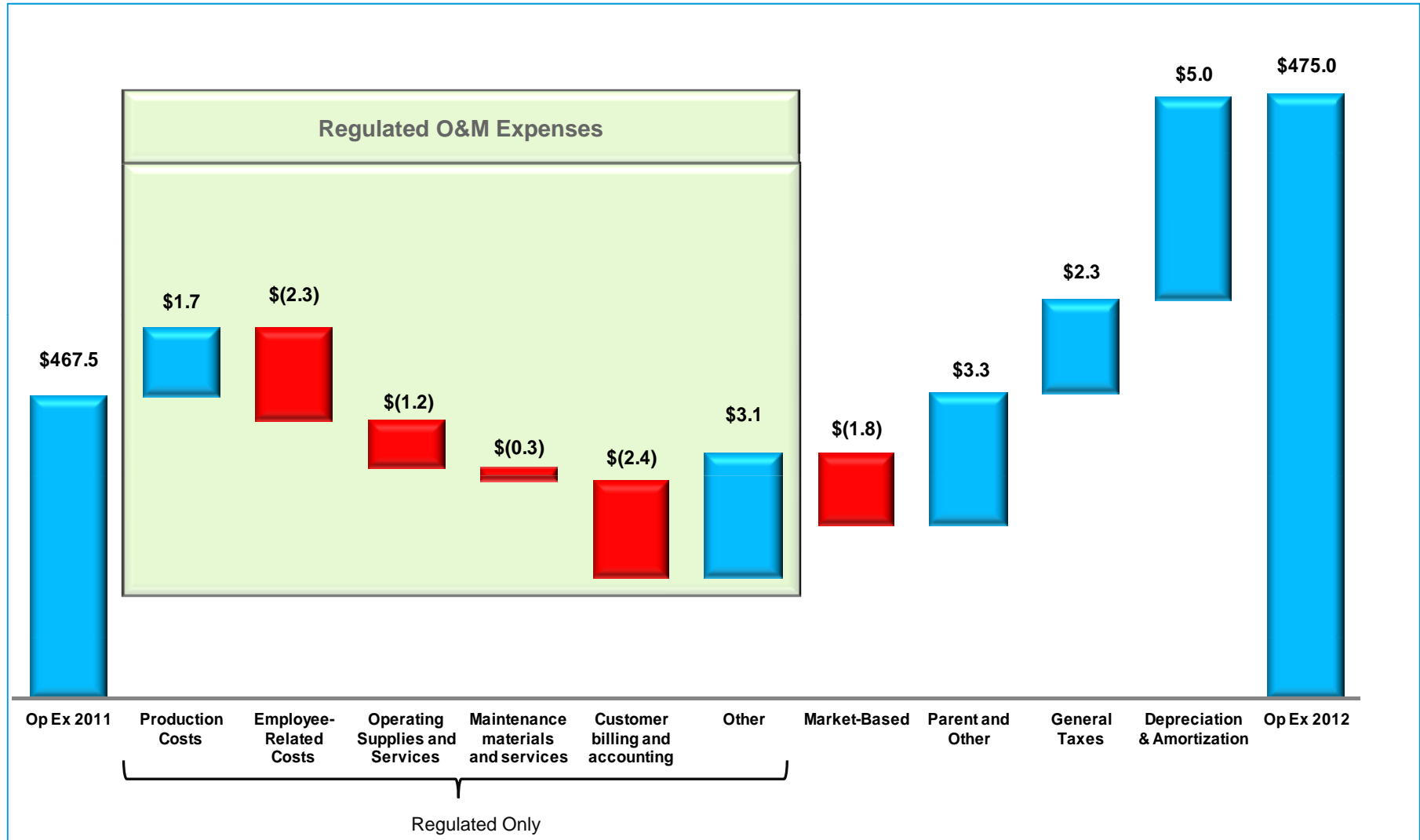
# Comparison of Water Sales Volume

<u>Customer Class</u>	<u>Billed Water Sales Volumes</u> (In Millions of Gallons)							
	<u>Second Quarter</u>				<u>Year to Date</u>			
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>%</u>
Residential	45,304	42,473	2,831	6.7 %	83,779	81,610	2,169	2.7 %
Commercial	20,371	19,103	1,268	6.6 %	37,656	36,453	1,203	3.3 %
Industrial	9,754	9,491	263	2.8 %	18,729	18,761	(32)	(0.2) %
Public & Other	13,353	12,193	1,160	9.5 %	25,079	24,026	1,053	4.4 %
<b>Total</b>	<b>88,782</b>	<b>83,260</b>	<b>5,522</b>	<b>6.6 %</b>	<b>165,243</b>	<b>160,850</b>	<b>4,393</b>	<b>2.7 %</b>

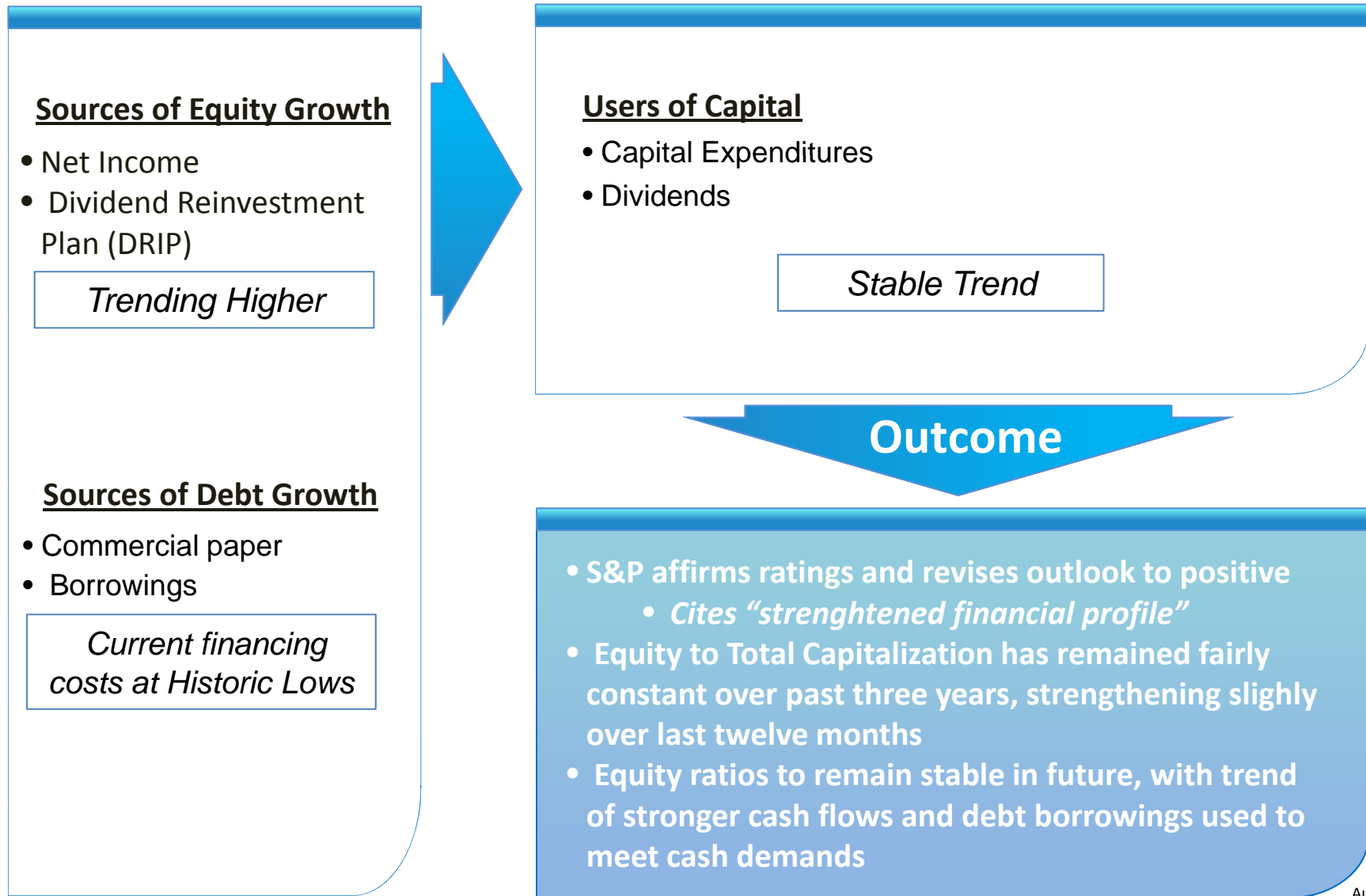
Water sales volumes for the three months ended June 30, 2012 increased over the same period in the prior year, driven by the unseasonably warmer/drier weather during June 2012 in most of the states in which we operate

# Second Quarter 2012 Expense Breakdown

(\$ in millions)

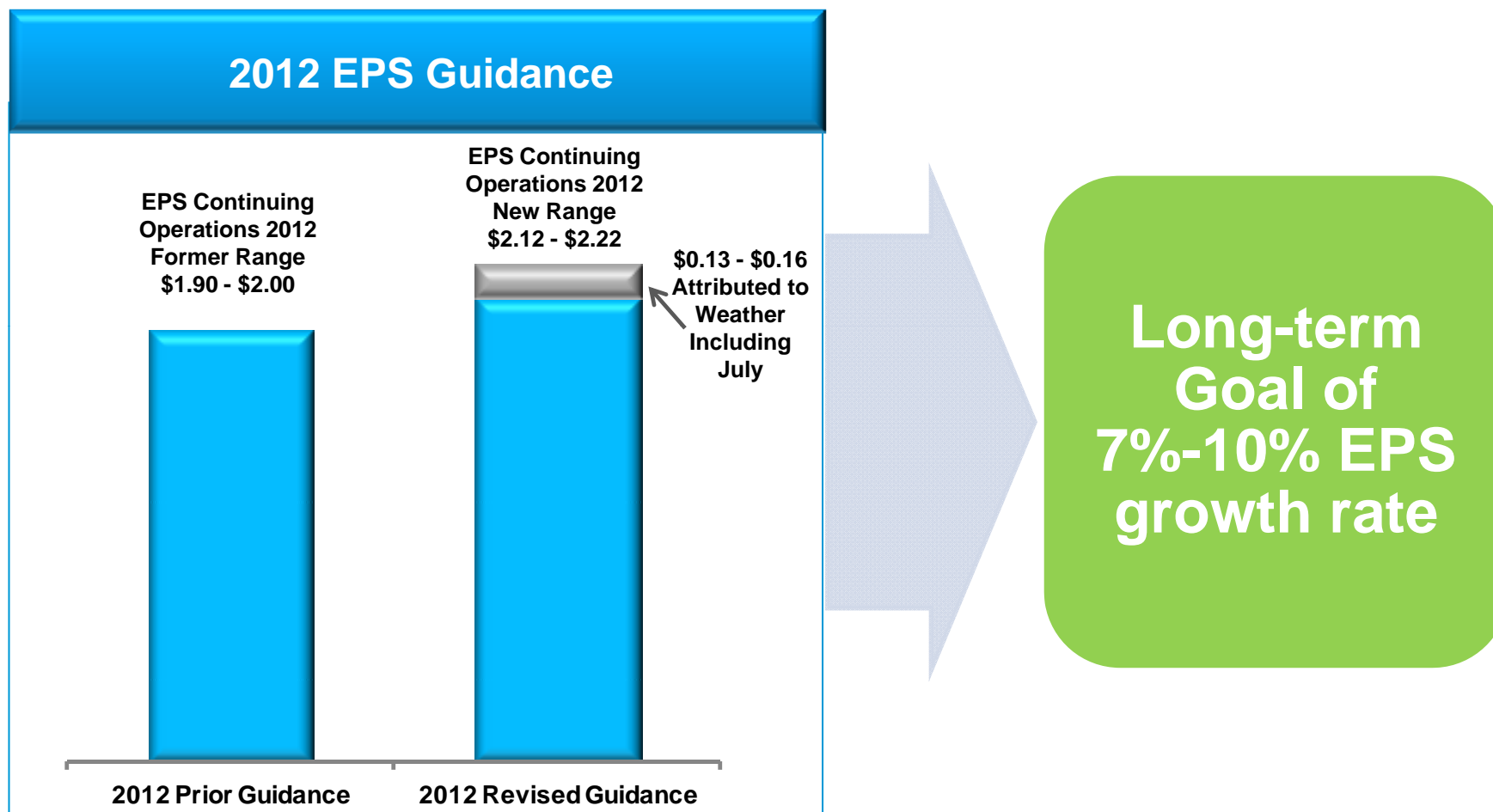


# Strength of Balance Sheet minimizes need for future Equity Offerings in the Normal Course of Business



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# Outlook: Increased 2012 Annual EPS Guidance



# AWK 2012 Expectations

## You Can Expect Us To

- ❑ **Continue Portfolio Optimization Initiative**
  - *Finalize transactions in NM, AZ, NY and OH*
  - *Identify additional valued-added opportunities*
- ❑ **Actively Address Regulatory Lag that Impacts Returns on Investments**
  - *Expect to file 4 general rate cases in 2012*
  - *Infrastructure Surcharges filings in 4-6 states*
  - *Address usage trends via rate case or other filings*
- ❑ **Continue O&M Efficiency Improvement**
  - *Five-year goal below 40% by 2015*
- ❑ **Efficient Use of our Capital**
  - *Invest approximately \$900 million to upgrade infrastructure*
  - *Enhance DSIC-like mechanisms*
  - *Optimize Supply Chain*
- ❑ **Increase Earned Regulated Return**
- ❑ **Expand Market Based businesses - focusing on Homeowner Services & Military Contract Operations**
- ❑ **Optimize Municipal Contract Operations Business Model**





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## Appendix



# Reconciliation Tables

<b>Adjusted Return on Equity</b>		
<b>(A Non-GAAP Unaudited Number)</b>		
<b>(\$ in thousands )</b>	<b>LTM 6/30/2011</b>	<b>LTM 6/30/2012</b>
Net income	\$271,610	\$351,051
Adjustments:		
Less: Cessation of depreciation, net of tax	(\$7,888)	(\$9,075)
Plus: Parent company goodwill charge associated with discontinued operations, net of tax	\$24,555	
<b>Adjusted net income</b>	<b>\$288,277</b>	<b>\$341,976</b>
Stockholders' equity	\$4,133,366	\$4,321,428
Less: Cessation of Depreciation	(\$7,888)	(\$9,075)
Plus: Parent Company goodwill charge associated with discontinued operations, net of tax	\$24,555	
Adjusted stockholders' equity, net of tax	\$4,150,033	\$4,312,353
<b>Adjusted Return on Equity</b>	<b>6.95%</b>	<b>7.93%</b>

# Reconciliation Tables

Regulated O&M Efficiency Ratio (A Non-GAAP Unaudited Number)	Three Months Ended June 30,		Six Months Ended June 30,		LTM Months Ended June 30,	
	2011	2012	2011	2012	2011	2012
<i>(\$ in thousands)</i>						
Total Operations and Maintenance Expense	\$327,157	\$327,577	\$637,978	\$637,581	\$1,322,017	\$1,301,397
Less:						
Operations and Maintenance Expense – Market Based Operations	72,702	71,118	137,238	138,891	265,391	280,112
Operations and Maintenance Expense – Other	(16,928)	(13,572)	(35,596)	(29,272)	(62,192)	(62,952)
Total Regulated Operations and Maintenance Expense	\$271,383	\$270,031	\$536,336	\$527,962	\$1,118,818	\$1,084,237
Less: Regulated Purchased Water Expense	25,565	27,597	46,380	50,007	\$99,793	\$102,635
<b>Adjusted Regulated Operations and Maintenance Expense (a)</b>	<b>\$245,818</b>	<b>\$242,434</b>	<b>\$489,956</b>	<b>\$477,955</b>	<b>\$1,019,025</b>	<b>\$981,602</b>
Total Operating Revenues	\$668,873	\$745,607	\$1,265,588	\$1,364,161	\$2,635,657	\$2,764,809
Less:						
Operating Revenues – Market Based Operations	82,424	82,795	157,806	163,376	310,380	333,385
Operating Revenues – Other	(7,992)	(4,789)	(14,940)	(8,691)	(27,644)	(24,221)
Total Regulated Operating Revenues	\$594,441	\$667,601	\$1,122,722	\$1,209,476	\$2,352,921	\$2,455,645
Less: Regulated Purchased Water Revenues*	25,565	27,597	46,380	50,007	99,793	102,635
<b>Adjusted Regulated Operating Revenues (b)</b>	<b>\$568,876</b>	<b>\$640,004</b>	<b>\$1,076,342</b>	<b>\$1,159,469</b>	<b>\$2,253,128</b>	<b>\$2,353,010</b>
<b>Regulated O&amp;M Efficiency Ratio (a)/(b)</b>	<b>43.2%</b>	<b>37.9%</b>	<b>45.5%</b>	<b>41.2%</b>	<b>45.2%</b>	<b>41.7%</b>

\*Calculation assumes purchased water revenues approximate purchased water expenses

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