



AMERICAN WATER

NYSE: AWK

## 2012 First-Quarter Earnings Conference Call

May 3, 2012



# Edward D. Vallejo

## Vice President Investor Relations

May 2012

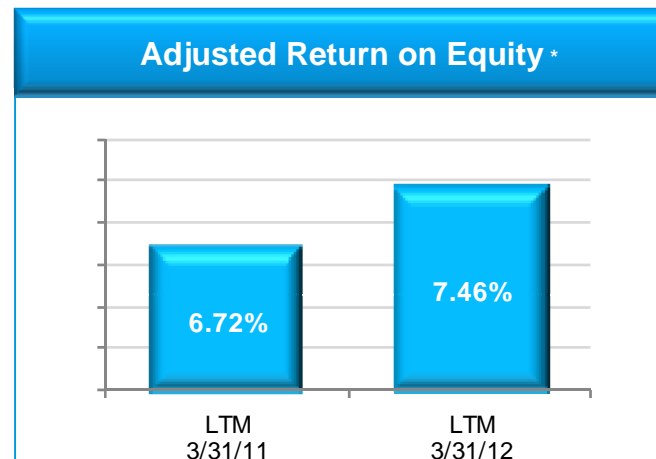
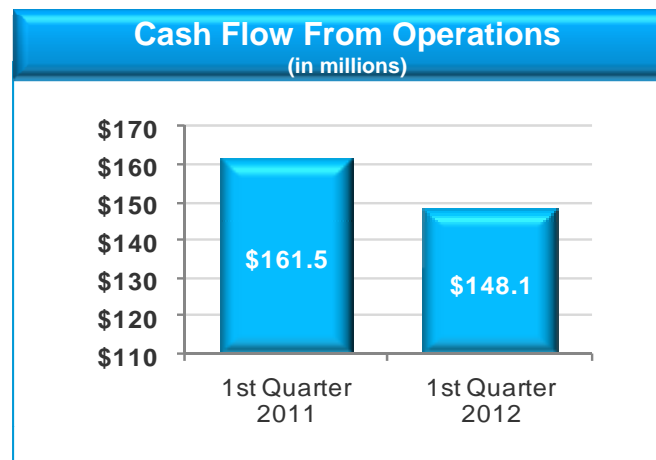
# Cautionary Statement Concerning Forward-Looking Statements

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



\*Adjusted ROE, a non-GAAP measure, excludes a tax benefit of \$4.7 million, and \$12.0 million related to cessation of depreciation and \$21.1 million and \$3.5 million charge for the write down of Parent company goodwill associated with businesses classified as discontinued operations for the LTM 3/31/11 and LTM 3/31/12, respectively. See ROE reconciliation table in the Appendix.

# Meeting Customers' Expectations

- Quarterly Satisfaction Survey Results
  - Q1 Customer Satisfaction
    - Approximately 94% in satisfied categories
  - Q1 Service Quality
    - Approximately 90% in satisfied categories
- Ensuring Reliable Service
  - Capital investments expected to exceed \$900 million
- Leveraging Technology
  - Upgraded call management system
  - Improved Web Self Service



## MY H2O ONLINE

- view and pay your bill
- sign up for automatic payments
- find an approved payment location near you
- update your contact information
- turn your water service on/off
- track your water use

Click here to log on or register.

**The value of water service. It's worth every penny!**

We invest millions of dollars each year to upgrade aging treatment and distribution facilities to ensure that our customers receive quality, reliable water service. At the same time, for the average residential customer, **the cost of tap water is about a penny per gallon.**

Just think. For the cost of one gallon of bottled water, most individuals could pay for their entire day's tap water needs for drinking, cooking, bathing and more.



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# 2012 Highlights

## Key Accomplishments in 2012

- **Execution of Portfolio Optimization Initiative**
  - Completed acquisition of seven regulated water systems in New York and sale of regulated operations in Ohio in May 2012
  - Completed sale of regulated operations in Arizona and New Mexico in January 2012
- **Resolved Rate Cases in five states totaling \$62.6 million of Annualized Revenues and Requested Additional Revenues of \$6.2 million in two states**
  - Rate orders received in Michigan, Missouri, Iowa, New York and New Jersey year-to-date
  - Filed rate case in Virginia and Michigan requesting \$6.2 million in additional annualized revenue
  - Received recommended decisions in California for general rate case, San Clemente Dam proposal
- **Improved Regulated O&M Efficiency Ratio**
- **Capital investment of \$309.1 million in Q1 2012 compared to \$242.7 million in Q1 2011**
- **Maintaining Water Supply**
- **DSIC approved in New Jersey**

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



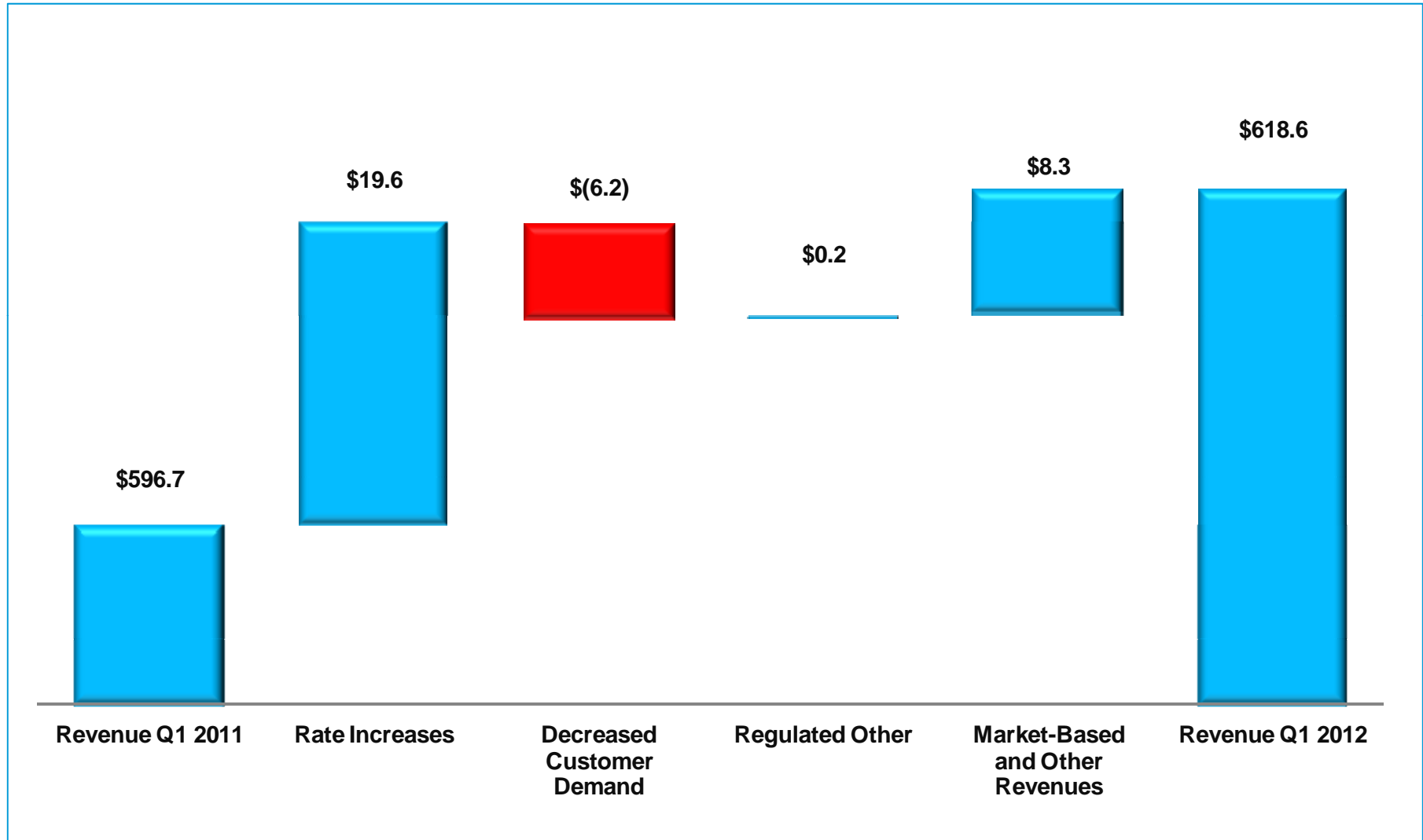
# 2012 First Quarter Financial Results

<i>(In thousands, except per share data)</i>	For the Three Months Ended March 31,	
	2012	2011
Revenue	\$618,554	\$596,715
Operating Income	\$159,738	\$143,250
Operating Income Margin %	25.8%	24.0%
Regulated O&M efficiency ratio <sup>(1)</sup>	45.3%	48.1%
Net Income	\$41,754	\$26,233
Income From Continuing Operations	\$49,252	\$40,699
Common dividends paid	\$40,414	\$38,525
Average common shares outstanding during the period: Diluted	177,028	176,048
Diluted Earnings per common share – Net Income	\$0.24	\$0.15
Diluted Earnings per common share – Income from Continuing Operations	\$0.28	\$0.23
Cash flows from operating activities	\$148,099	\$161,526

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

# Revenue Breakdown – First Quarter 2012

(\$ in millions)



Note: Amounts may not sum due to rounding.

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# Rate Cases Awaiting Final Order

(as of May 2, 2012)

	Docket / Case Number	Date Filed	Annualized Revenue Increase Filed	ROE Requested	Rate Base (Filed)	Filing Status
California	Case No. 10-07-007	07/01/10	\$37.3	10.20%	\$409.6	4
Indiana	Case No. 44022	05/02/11	20.4	11.50%	733.4	4
Illinois	Case No. 11-0767	10/27/11	37.8	11.40%	716.1	3
Virginia (a)	Case No. PUE-2011-00127	02/06/12	6.0	11.30%	118.5	2
<b>TOTAL</b>			<b>\$101.5</b>		<b>\$1,977.6</b>	

## Index of Filing Status

- 1 - Case Filed
- 2 - Discovery (Data Requests, Investigation)
- 3 - Negotiations / Evidentiary Hearings / Briefings
- 4 - Record closed / awaiting final order
- 5 - Settlement reached / awaiting final order

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

# Rate Cases and Infrastructure Charges Awarded

(as of May 2, 2012)

(\$ in millions) <u>Final Order</u>	<u>Effective Date for new rates</u>	<u>ROE Granted</u>	<u>Increase to Revenue</u>
<b>General Rate Cases:</b>			
New Jersey	1/1/2011	10.30%	\$39.9
Pennsylvania Wastewater	1/1/2011	10.60%	8.4
Virginia (a)	3/6/2011	10.20%	4.8
Tennessee	4/5/2011	10.00%	5.6
West Virginia	4/19/2011	9.75%	5.1
Hawaii	11/21/2011	10.20%	1.2
Pennsylvania	11/11/2011	10.25%	62.1
Michigan	2/1/2012	10.50%	0.2
Iowa	3/13/2012	9.40%	2.8
Long Island <sup>(b)</sup>	4/1/2012	9.65%	5.6
Missouri	4/1/2012	10.00%	24.0
New Jersey	5/1/2012	10.15%	30.0
<b>Subtotal - General Rate Cases</b>			<b>\$189.7</b>
<i>Infrastructure Charges:</i>			
Other (IL, IN, PA, and Other)			10.8
<b>Subtotal - Infrastructure Charges</b>			<b>\$10.8</b>
<b>TOTAL</b>			<b>\$200.5</b>
(a) Includes non-jurisdictional components of approximately \$0.5 million.			
(b) Award includes \$3 million as first of a three year revenue stream, to be followed in increments of \$1.4 million and \$1.2 million in 2013 and 2014, respectively			

Notes: Excludes rate cases from closed transactions related to portfolio optimization.  
Amounts may not sum due to rounding.

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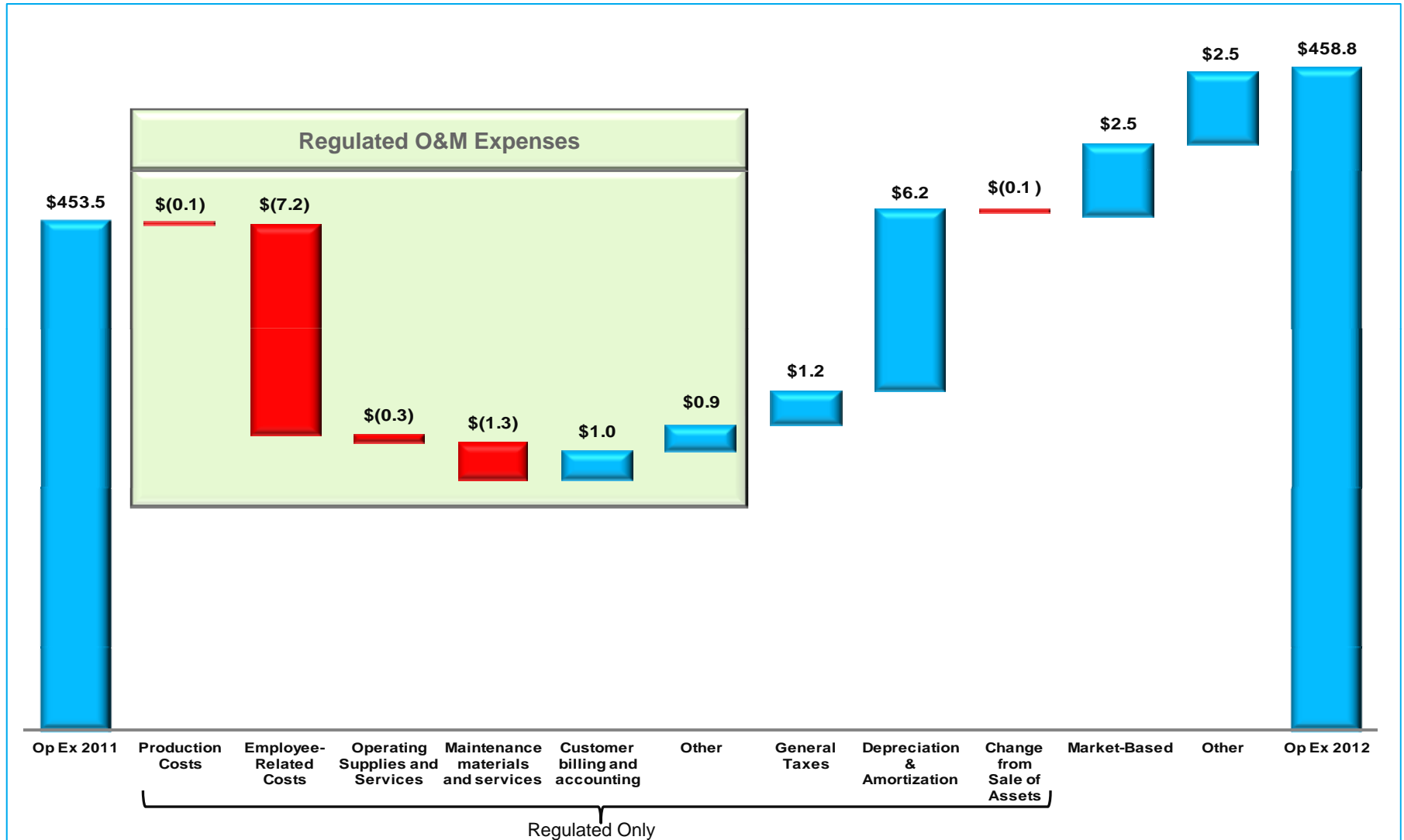
# Comparison of Water Sales Volume

<u>Customer Class</u>	<u>Water Sales Volume</u> (In Millions of Gallons)			
	<u>Year to Date</u>			
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Percentage</u>
Residential	38,475	39,138	(663)	(1.7) %
Commercial	17,285	17,350	(65)	(0.4) %
Industrial	8,975	9,270	(295)	(3.2) %
Public & Other	11,726	11,832	(106)	(0.9) %
<b>Total</b>	<b>76,461</b>	<b>77,590</b>	<b>(1,129)</b>	<b>(1.5) %</b>

Water sales volumes for the three months ended March 31, 2012 decreased over the same period in the prior year showing a continuation of the 10-year trend of lower usage and conservation

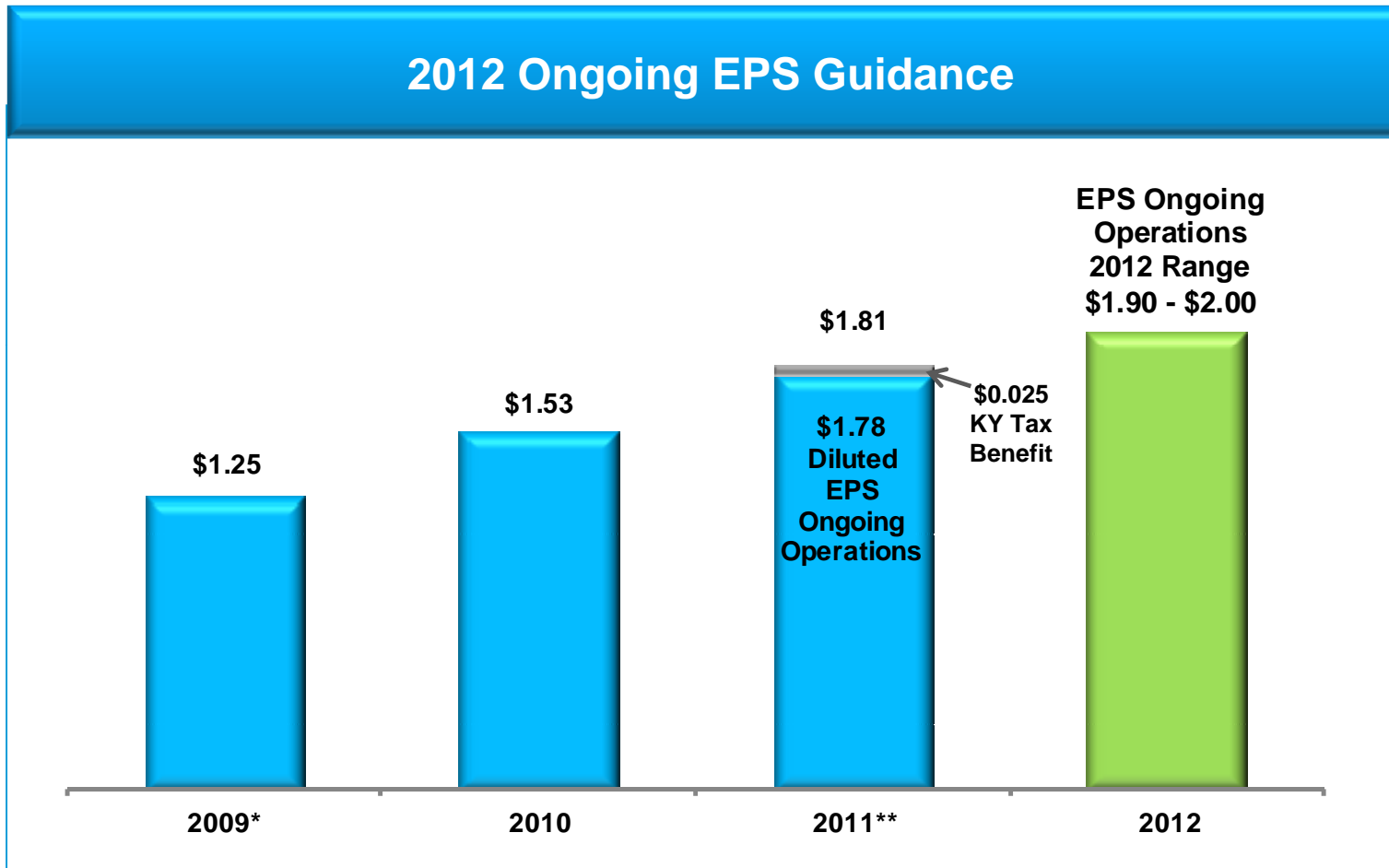
# First Quarter 2012 Expense Breakdown

(\$ in millions)



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# Outlook: Reaffirming 2012 Annual EPS Guidance



\* 2009 Adjusted EPS excludes goodwill impairment charges

\*\*2011 Adjusted EPS, non-GAAP measure, do not recognize an approximate \$0.09 related to cessation of depreciation and approximately \$0.14 related to a charge for the write down of Parent company goodwill associated with businesses classified as discontinued operations

# AWK 2012 Expectations

## You Can Expect Us To

- Continue Portfolio Optimization Initiative**
  - *Completed all open transactions to date*
  - *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 in excess of \$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 3/31/2011</b>	<b>LTM 3/31/2012</b>
Net income from Continuing Operations	\$263,252	\$325,134
Adjustments:		
Plus: Parent company goodwill charge associated with discontinued operations, net of tax	\$21,099	\$3,456
<b>Adjusted net income</b>	<b>\$279,622</b>	<b>\$316,548</b>
Stockholders' equity	\$4,146,107	\$4,250,889
Less: Cessation of Depreciation	(\$4,729)	(\$12,042)
Plus: Parent Company goodwill charge associated with discontinued operations, net of tax	\$21,099	\$3,456
Adjusted stockholders' equity excluding impairment charge, net of tax	\$4,162,477	\$4,242,303
<b>Adjusted Return on Equity</b>	<b>6.72%</b>	<b>7.46%</b>

# Reconciliation Tables

<b>Regulated O&amp;M Efficiency Ratio</b> (A Non-GAAP Unaudited Number)	Three Months Ended March 31,	
	2011	2012
<i>(\$ in thousands)</i>		
Total Regulated Operations and Maintenance Expense	\$264,953	\$257,931
Less: Regulated Purchased Water Expense	\$20,816	\$22,410
<b>Adjusted Regulated Operations and Maintenance Expense (a)</b>	<b>\$244,137</b>	<b>\$235,521</b>
Total Regulated Operating Revenues	\$528,281	\$541,875
Less: Regulated Purchased Water Revenues*	\$20,816	\$22,410
<b>Adjusted Regulated Operating Revenues (b)</b>	<b>\$507,465</b>	<b>\$519,465</b>
<b>Regulated O&amp;M Efficiency Ratio (a)/(b)</b>	<b>48.1%</b>	<b>45.3%</b>

\*Calculation assumes purchased water revenues approximate purchased water expenses

# Reconciliation Tables

Adjusted Net Income / Adjusted Earnings per Share			
(A Non-GAAP Unaudited Number)			
(\$ in thousands, except per share data)	2009	2010	2011
Net income, (Loss)	(\$233,083)	\$267,827	\$309,613
Less: Cessation of depreciation, net of tax	-	-	(\$15,132)
Plus: Impairment charges, net of tax	\$443,024	-	-
Plus: Parent company goodwill charge associated with discontinued operations, net of tax	-	-	\$25,107
<b>Adjusted net income</b>	<b>\$209,941</b>	<b>\$267,827</b>	<b>\$319,588</b>
Diluted earnings per common share:	(\$1.39)	\$1.53	\$1.75
Less: EPS Impact of cessation of depreciation	-	-	(\$0.09)
Plus: EPS Impact of Impairment charges	\$2.64	-	-
Plus: EPS Impact of parent company goodwill charge associated with discontinued operations	-	-	\$0.14
<b>Adjusted earnings per share</b>	<b>\$1.25</b>	<b>\$1.53</b>	<b>\$1.81</b>

Note: Amounts do not sum up due to rounding

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