



AMERICAN WATER

2010 First Quarter Earnings Conference Call

May 5, 2010



Edward D. Vallejo

Vice President Investor Relations

May 2010

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 our current expectations and assumptions regarding future events and may relate to, among other things, our future financial performance, including earnings, our growth strategies, our ability to finance current operations and growth initiatives, trends in our industry, regulatory or legal developments or 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; our ability to appropriately maintain current infrastructure and manage the expansion of our business; our ability to obtain permits for projects; changes in our capital requirements; our ability to control operating expenses and to achieve efficiencies in our operations; our ability to obtain adequate and cost-effective supplies of chemicals, electricity, fuel, water and other raw materials that are needed for our operations; our ability to successfully acquire and integrate water and wastewater systems that are complementary to our operations and the growth of our business; cost overruns relating to improvements or the expansion of our operations; changes in general economic, business and financial market conditions; significant changes to our business processes and corresponding technology; access to sufficient capital on satisfactory terms; fluctuations in interest rates; restrictive covenants in or changes to the credit ratings on our current or future debt that could increase our financing costs or affect our ability to borrow, make payments on debt or pay dividends; fluctuations in the value of benefit plan assets and liabilities that could increase our cost and funding requirements; the incurrence of impairment charges; migration of customers into or out of our service territories; difficulty in obtaining insurance at acceptable rates and on acceptable terms and conditions; ability to retain and attract qualified employees; and civil disturbance, labor strikes or 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 periodic SEC filings.

The Company undertakes no duty to update any forward-looking statement.

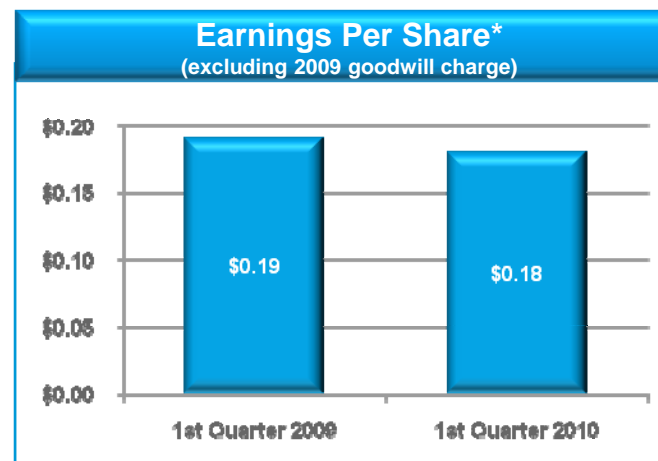
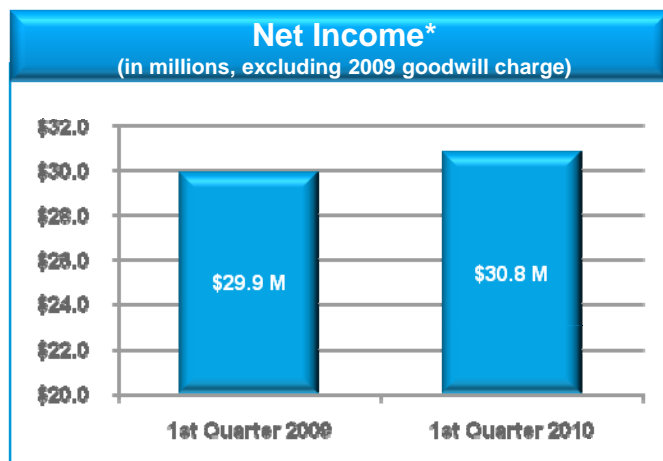
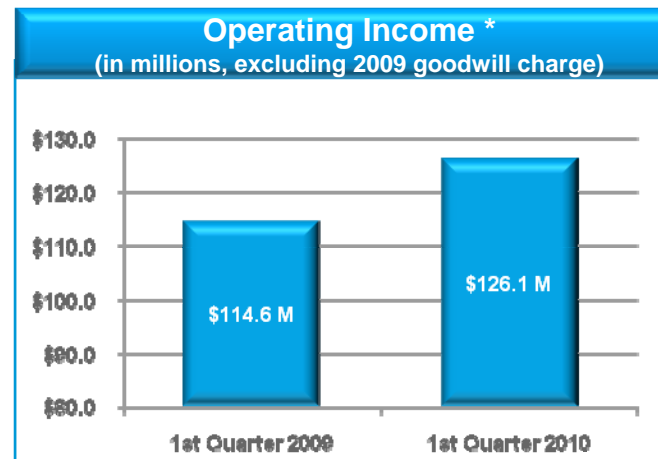
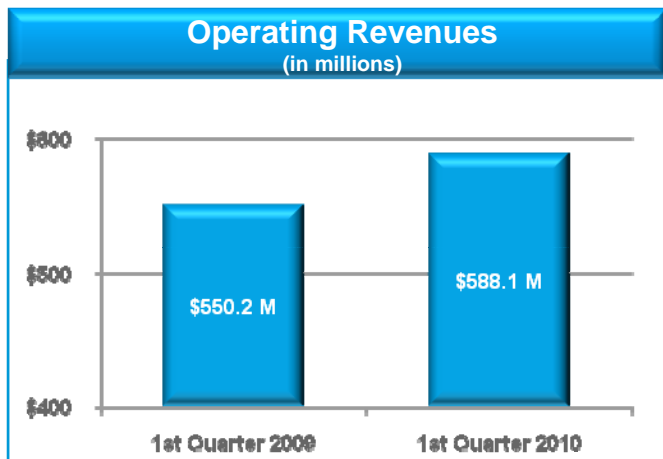
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Donald L. Correll

President and Chief Executive Officer

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2010 First Quarter Financial Highlights



* Non-GAAP Financial Measure. Reconciliation table can be found at the end of this presentation

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AWK 2010 First Quarter: Executing on Our Strategy

- **Capital Investment**

- Invested approximately \$143 million
-

- **Long-term Water Solutions**

- Canoe Brook Water Treatment Plant
 - Approximately \$72 million
 - Expect to create almost 200 construction jobs
 - Nittany Water Company acquisition
 - 36th County in PA
 - Nearly 1,500 people in Centre and Clinton counties
-

- **Rate Cases Granted-subsequent to the quarter**

- \$73.4 million additional annualized revenue granted in April 2010

- **Rate Cases Still Waiting Final Order as of May 3, 2010**

- \$295.4 million in additional annualized revenue if approved as filed
-

- **Solution Recognition**

- Global Water Intelligence's Award of Distinction -"Water Reuse Project of the Year"
-

- **Shareholder Commitment**

- IR Global Rankings- top five best ranked companies in North America for financial disclosure procedures
- Dividend Reinvestment and Direct Stock Purchase Plan
- Eight Consecutive Dividends Declared

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Outlook: Tightening 2010 Annual EPS Guidance



Long Term Objectives

Invest approximately \$800 million to \$1 billion annually in ongoing Capital program

Sustain a dividend payout ratio in the 50-70% range of net income

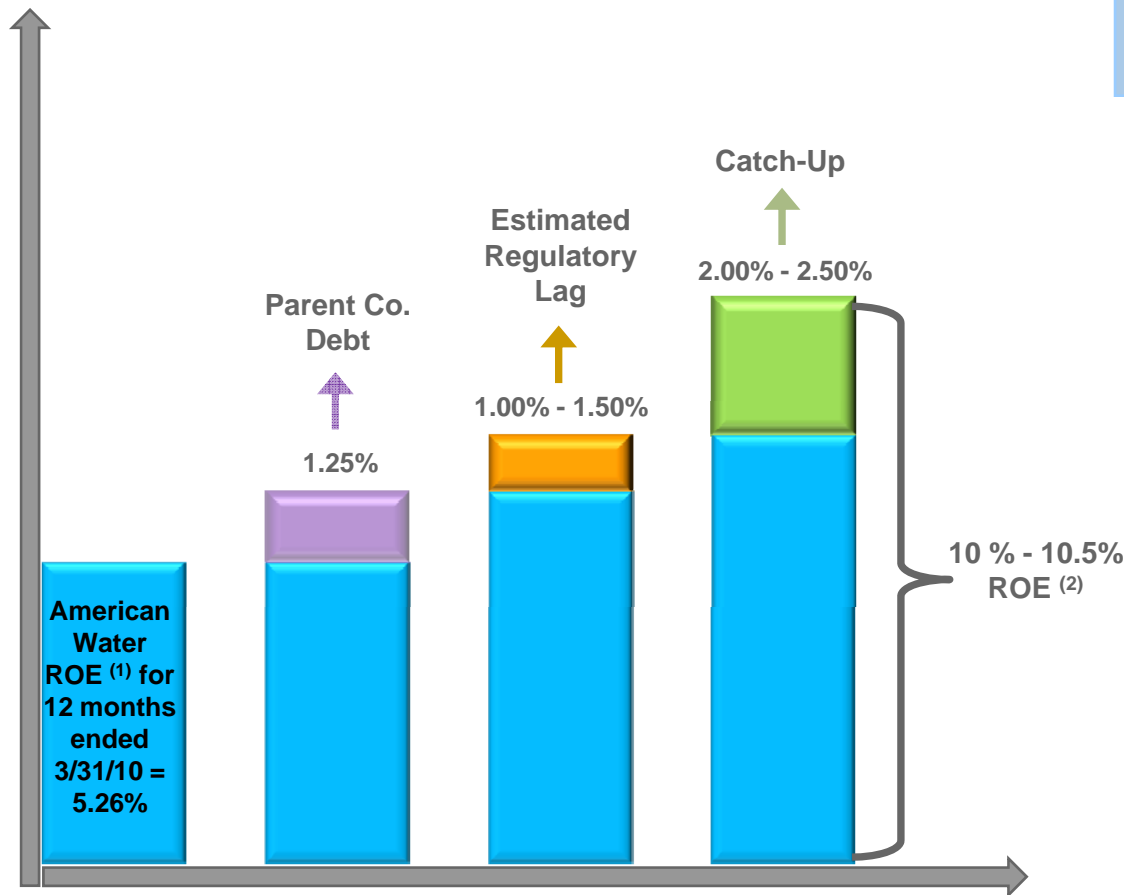
Maintain a solid Investment Grade rating with Equity to Total Capitalization in 45-50% range

The Company is committed to the fair disclosure of information to investors in compliance with all applicable securities laws, including Regulation FD; and consequently, our disclosure and guidance policy states that the Company will not comment privately on a prior public statement about guidance.

Note: Changes in events, or circumstances beyond the Company's control or that it cannot anticipate could materially impact the EPS guidance and could result in actual results being significantly above or below this outlook. Investors are advised to review the risk factors in the Company's 10-K and other filed financial documents when making investment decisions

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Another way to look at Return on Equity results



Steps to tighten difference between earned & allowed ROE

- Parent Co. Debt (1.25%)**
 - ◆ Explore strategies to lower impact of interest expense
- Regulatory Lag (1.00%-1.50%)**
 - ◆ Infrastructure Surcharge
 - ◆ Expense Pass-through
 - ◆ Other Regulatory Initiatives
- Catch-Up (2.00%-2.50%)**
 - ◆ Continue filing rate cases
 - ◆ Focus on O&M efficiency
 - ◆ Business Transformation
 - ◆ Analyze Portfolio

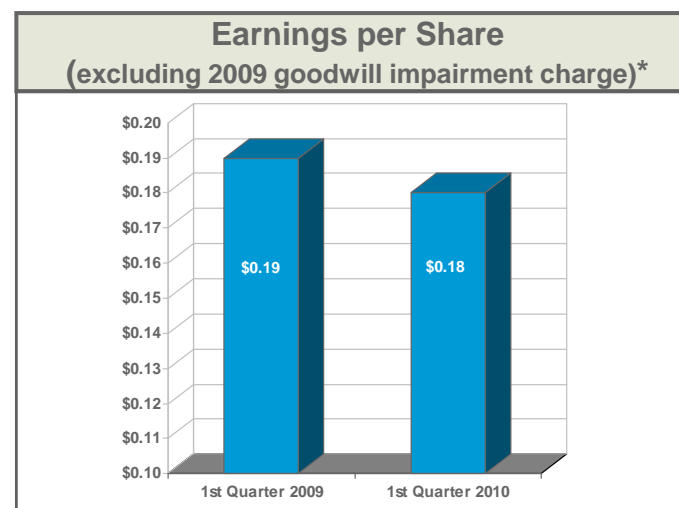
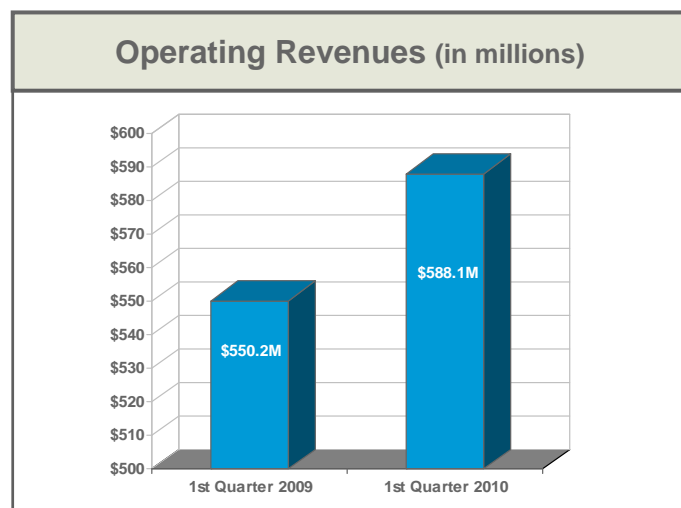
1. Net Income excludes goodwill impairment charges
 2. Range of allowed ROE

Ellen C. Wolf
Senior Vice President
and Chief Financial Officer

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Financial Results – First Quarter

| | For the Three Months Ended March 31 | |
|--|--|-----------|
| | 2010 | 2009 |
| | <i>(In thousands, except per share data)</i> | |
| Revenue | \$588,053 | \$550,170 |
| Operating income * | \$126,065 | \$114,630 |
| Net income to common * | \$30,808 | \$29,945 |
| Common dividends | \$36,679 | \$32,072 |
| Average common shares outstanding during the period, fully diluted | 174,797 | 160,011 |
| Net income per common share * | \$0.18 | \$0.19 |



* Non-GAAP Financial Measure –excludes goodwill impairment charge in 2009. Reconciliation table can be found at the end of this presentation

May 2010

Revenue Summary – First Quarter

| | <u>(In Millions)</u> |
|---|----------------------|
| Revenue for the Three Months Ended March 31, 2009 | \$550.2 |
| Increase due to rate authorizations | 19.9 |
| Increase in surcharges and balancing accounts | 3.2 |
| Decrease due to water consumption | (3.9) |
| Increase in Contract Operations | 14.8 |
| Increase in Homeowner Services | 1.1 |
| Other, net | 2.8 |
| Revenue for the Three Months Ended March 31, 2010 | <u>\$588.1</u> |

Revenue increased 6.9%

Rate Case Summary- 2009 Through May 3, 2010

| | <u>Docket / Case Number</u> | <u>Date Filed</u> | <u>Amount Filed</u> | <u>ROE Requested</u> | <u>Effective Date for new rates</u> | <u>ROE Granted</u> | <u>Amount Granted</u> |
|---|---------------------------------|-----------------------|-------------------------|--------------------------|---|------------------------|---------------------------|
| West Virginia | 08-0900-W-42T | 5/30/2008 | \$14.8 | 11.75% | 3/26/2009 | 10.00% | \$5.2 |
| New Mexico | 08-00134-UT | 6/30/2008 | \$2.2 | 11.75% | 5/20/2009 | 10.25% | \$1.4 |
| AWWM (NJ) | WR08080550 | 8/1/2008 | \$3.0 | 11.50% | 5/21/2009 | 10.30% | \$1.6 |
| California (ROE) | A 08-05-003 | 5/1/2008 | \$2.8 | 11.50% | 5/6/2009 | 10.20% | \$0.1 |
| Kentucky | 2008-00427 | 10/31/2008 | \$18.5 | 11.50% | 6/1/2009 | 10.00% | \$10.3 |
| Michigan | N/A | 6/22/2009 | \$0.2 | 10.50% | 7/1/2009 | 10.50% | \$0.2 |
| Calif (Monterey Water) | A 08-01-027 | 1/30/2008 | \$35.3 | 11.50% | 5/11/2009 | 10.20% | \$12.1 |
| California (Monterey WW) | A 08-01-023 | 1/30/2008 | \$1.8 | 11.50% | 7/9/2009 | 10.20% | \$1.7 |
| California (Gen Office) | A 08-01-024 | 1/30/2008 | \$6.4 | 11.50% | 5/11/2009 | 10.20% | \$2.2 |
| Maryland | 9187 | 4/30/2009 | \$0.8 | 11.75% | 9/10/2009 | 10.75% | \$0.6 |
| Iowa | RPU-2009-0004 | 4/30/2009 | \$9.4 | 12.20% | 7/27/2009 | 10.50% | \$6.1 |
| Pennsylvania | R-2009-2097323 | 4/24/2009 | \$58.1 | 12.00% | 11/7/2009 | 10.80% | \$30.8 |
| Texas | 2008-0910-UCR | 2/21/2008 | \$0.9 | 12.00% | 11/30/2009 | 12.00% | \$0.5 |
| Arizona (multiple) | W-01303A-08-0227 | 5/1/2008 | \$20.0 | 11.75% | 12/1/2009 | 9.90% | \$8.1 |
| Illinois | Docket No. 09-0319 | 5/29/2009 | \$58.6 | 12.25% | 4/23/2010 | 10.38% | \$41.4 |
| New Mexico (Edgewood) | Case No. 09-00156-UT | 8/21/2009 | \$0.7 | 12.25% | 5/10/2010 | 10.00% | \$0.5 |
| Indiana | Case No. 43680 | 4/1/2009 | \$46.9 | 12.00% | 05/03/2010 | 10.00% | \$31.5 |
| Total General Rate Cases | | | | | | | \$154.3 |
| Total Infrastructure Surcharges 2009 to date | | | | | | | \$32.3 |
| Total Additional Revenues Due to Rates Activity at 5/3/2010 | | | | | | | \$186.6 |

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General Rate Cases Awaiting Final Order as of May 3, 2010

General Rate Cases Awaiting Final Order as of 5/3/2010

| | <u>Docket / Case Number</u> | <u>Date Filed</u> | <u>Amount Filed</u> | <u>ROE Requested</u> | <u>Rate Base (Filed)</u> | <u>Filing Status</u> |
|-------------------------------|---------------------------------|-------------------|-------------------------|--------------------------|------------------------------|--------------------------|
| Hawaii * | Case No. 2007-0180 | 11/1/2007 | \$1.3 | 10.60% | \$24.9 | 5 |
| California ** (Sac, LA, Lark) | Case No. A 09-01-013 | 1/23/2009 | \$32.7 | 10.20% | \$215.8 | 3 |
| Ohio | Case No. 09-391-WS-AIR | 5/7/2009 | \$8.8 | 12.20% | \$74.8 | 3 |
| Arizona (Anthem, various) | W-01303A-09-0343 | 7/2/2009 | \$20.6 | 12.25% | \$220.4 | 3 |
| Missouri | WR-2010-0131,SR-2010-0135 | 10/30/2009 | \$48.7 | 11.60% | \$792.3 | 2 |
| Virginia (Eastern) | Case No. PUE 2009-00093 | 12/8/2009 | \$0.6 | 10.50% | \$3.2 | 3 |
| Kentucky | Case No. 2010-00036 | 2/26/2010 | \$25.8 | 11.50% | \$362.7 | 2 |
| Virginia | Case No. PUE 2010-00001 | 3/8/2010 | \$6.9 | 11.50% | \$99.1 | 2 |
| New Jersey | Case No. WR10040260 | 4/9/2010 | \$84.7 | 11.75% | \$1,957.0 | 1 |
| Pennsylvania Wastewater | R- 2010-216608, 10, 12 & 14 | 4/23/2010 | \$11.7 | 11.50% | \$99.4 | 1 |
| California *** | Pending | 5/3/2010 | <u>\$53.6</u> | 10.20% | <u>\$409.7</u> | 1 |
| Total | | | <u>\$295.4</u> | | <u>\$4,259.3</u> | |

* Interim rates implemented (\$1.1m add'l annual revenues) and will be subject to adjustment upon issuance of final order from commission.

** California rate increase amount includes test year (2010) increase of \$26.1m, and staged increase of \$6.6m effective in escalation year of 2011.

*** California rate increase includes interim increase of \$3.6m in 2011, test year (2012) increase of \$30.0m and staged increases of \$9.4m and \$10.6m in 2013 and 2014, respectively.

Index of Rate Case Status

- 1 - Case Filed
- 2 - Discovery (Data Requests, Investigation)
- 3 - Negotiations / Evidentiary Hearings / Briefings
- 4 - Recommended order issued / settlement reached, without interim rates
- 5 - Interim rates in effect, awaiting final order

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Comparison of Water Sales Volumes

| <u>Customer Class</u> | <u>Water Sales Volumes</u> (In Millions of Gallons) | | | |
|-----------------------|--|---------------|----------------|-------------------|
| | <u>Year to Date</u> | | | |
| | <u>2010</u> | <u>2009</u> | <u>Change</u> | <u>Percentage</u> |
| Residential | 42,711 | 44,555 | (1,844) | (4.1) % |
| Commercial | 18,388 | 18,229 | 159 | 0.9 % |
| Industrial | 9,214 | 8,629 | 585 | 6.8 % |
| Public & Other | 12,577 | 12,614 | (37) | (0.3) % |
| Total | 82,890 | 84,027 | (1,137) | (1.4) % |

Water sales volumes for the three months ended March 31, 2010 decreased over the same period in the prior year due to decline in residential usage

Operating Expense Summary

| | <u>(In Millions)</u> |
|--|------------------------|
| Operating Expenses for the Three Months Ended March 31, 2009 | \$ 885.5 |
| Change in impairment charge | (450.0) |
| Increase in Employee Related Costs | 12.6 |
| Increase in Production Costs | 4.2 |
| Increase in Maintenance Materials and Services | 4.0 |
| Increase in Depreciation & Amortization | 7.4 |
| Other, net | <u>(1.7)</u> |
| Operating Expenses for the Three Months Ended March 31, 2010 | <u><u>\$ 462.0</u></u> |

Operating margin increased to 21.4% compared to 20.8% in 2009*

* Non-GAAP Financial Measure –excludes goodwill impairment charge in 2009. Reconciliation table can be found at the end of this presentation

May 2010

2010- Liquidity and Capital Resources

| For the Three Months Ended March 31, | 2010 | 2009 |
|---|-----------------------|-------------|
| | <i>(In thousands)</i> | |
| Cash flows provided by operating activities | \$175,990 | \$142,499 |
| Cash flows used in investing activities | (\$137,782) | (\$202,281) |
| Cash flows (used in) provided by financing activities | (\$47,831) | \$58,756 |

- **Cash Flows from Investing Activities**
 - First quarter 2010 capital expenditures - \$142.7 million
 - First quarter 2009 capital expenditures - \$196.2 million
- **Financing Activities**
 - Commercial paper outstanding at March 31, 2010 of \$138.6 million
 - Dividends of \$36.7 million compared to \$32.1 million in 2009
 - Debt Offerings
 - ◆ Total new long-term debt issuances of \$1.1 million
 - ◆ Application for State Revolving Loan Funds \$22.0 million

Dividends Paid – Return on Shareholder Investment

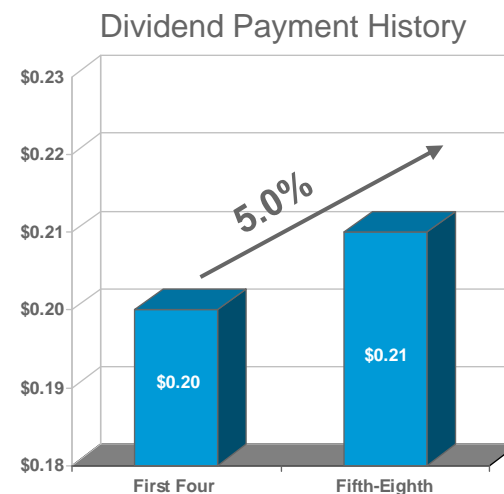
- **Declared eight quarterly dividends since IPO**

- Declared and paid seven dividends
- Declared eighth dividend of \$0.21 per share on April 30, 2010

- **Dividend policy**

- Quarterly basis
- Payout ratio in the 50 percent to 70 percent range of net income

- **Committed to meeting shareholders' expectations**



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**WE CARE ABOUT WATER.
IT'S WHAT WE DO.**

**AWK
LISTED
NYSE.**

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First Quarter Reconciliation tables

Net Income (Loss) Excluding Impairment Charge (A Non-GAAP, Unaudited Number)

(\$ in Thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------------|
| | 2010 | 2009 |
| Net income (Loss) | \$ 30,808 | \$ (413,079) |
| Add: Impairment charge | - | 450,000 |
| Net income excluding impairment charge before associated tax benefit | 30,808 | 36,921 |
| Less: Income tax benefit relating to impairment charge | - | 6,976 |
| Net income excluding impairment charge | <u>\$ 30,808</u> | <u>\$ 29,945</u> |
| Basic earnings per common share, excluding impairment charge: | \$ 0.18 | \$ 0.19 |
| Diluted earnings per common share, excluding impairment charge: | \$ 0.18 | \$ 0.19 |

Operating Expenses Excluding Impairment Charge (A Non-GAAP, Unaudited Number)

(\$ in Thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2010 | 2009 |
| Total operating expenses, net | \$ 461,988 | \$ 885,540 |
| Less: Impairment charge | - | 450,000 |
| Total operating expenses, excluding impairment charge | \$ 461,988 | 435,540 |

Operating Income Excluding Impairment Charge (A Non-GAAP, Unaudited Number)

(\$ in Thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|----------------|
| | 2010 | 2009 |
| Operating income (loss) | \$ 126,065 | \$ (355,370) |
| Less: Impairment charge | - | 450,000 |
| Total operating income, excluding impairment charge | \$ 126,065 | 114,630 |

Operating Income Excluding Impairment Charge (A Non-GAAP, Unaudited Number)

(\$ in Thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|--------------|
| | 2010 | 2009 |
| Operating margin | 21.4% | -61.0% |
| Less: Impairment charge | - | 81.8% |
| Operating margin, excluding impairment charge | 21.4% | 20.8% |

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Adjusted EBITDA Reconciliation

| (\$ in Thousands) | Historical | | | | LTM |
|---|------------------|------------------|------------------|------------------|------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| Net income (Loss) from Continuing Operations | (\$155,850) | (\$342,275) | (\$562,421) | (\$233,083) | \$210,804 |
| Adjustments | | | | | |
| Impairment charges | 221,685 | 509,345 | 750,000 | 450,000 | 0 |
| SOX Implementation Costs | 15,400 | 32,002 | 14,464 | 0 | 0 |
| Divestiture/Sale Expenses | 7,359 | 8,113 | 8,666 | 0 | 1,575 |
| Other (Condemnation/Regulatory Approvals) | 29,826 | 10,465 | 6,859 | 1,876 | 0 |
| Interest and "Interest-like" Items | | | | | |
| Interest | 365,970 | 283,165 | 285,155 | 296,545 | 303,281 |
| Allowance for Other Funds Used During Construction | (5,980) | (7,759) | (14,497) | (11,486) | (10,295) |
| Allowance for Borrowed Funds Used During Construction | (2,652) | (3,449) | (8,171) | (7,224) | (6,749) |
| Amortization of Debt Expense | 5,062 | 4,867 | 5,895 | 6,647 | 5,844 |
| Preferred Dividends | 215 | 225 | 225 | 225 | 224 |
| Income Taxes | 46,912 | 86,756 | 111,827 | 121,418 | 130,324 |
| Depreciation and Amortization | 259,181 | 267,335 | 271,261 | 294,240 | 301,629 |
| EBITDA | \$787,128 | \$848,790 | \$869,263 | \$919,158 | \$936,637 |

Adjusted Net Income Reconciliation

| (\$ in Thousands) | Historical | | | | LTM |
|---|-----------------|------------------|------------------|------------------|------------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 |
| Net income (Loss) from Continuing Operations | (\$155,850) | (\$342,275) | (\$562,421) | (\$233,083) | \$210,804 |
| Adjustments | | | | | |
| Impairment charges | 217,501 | 501,515 | 738,475 | 443,024 | 0 |
| SOX Implementation Costs | 9,394 | 19,179 | 8,678 | 0 | 0 |
| Divestiture/Sale Expenses | 4,489 | 4,860 | 5,200 | 1,126 | 945 |
| Other (Condemnation/Regulatory Approvals) | 17,334 | 6,269 | 4,116 | 0 | 0 |
| Adjusted Net Income from Continuing Operations | \$92,868 | \$189,548 | \$194,048 | \$211,067 | \$211,749 |

Rate Base as of March 31, 2010 ⁽¹⁾

| (\$ in Thousands) | |
|---|--------------------|
| Net Utility Plant | \$10,590,989 |
| Less | |
| Advances for Construction | 631,900 |
| CIAC – Contributions in Aid of Construction | 979,090 |
| Deferred income taxes | 924,763 |
| Deferred investment tax credits | 32,198 |
| | <u>\$2,567,951</u> |
| TOTAL | \$8,023,038 |

Rate Base **\$8,023,038**

(1) Includes Net Utility Plant not yet included in rate base pending rate case filings/outcomes

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