

# AMERICAN WATER WORKS COMPANY, INC.

## FORM 10-Q (Quarterly Report)

Filed 07/31/19 for the Period Ending 06/30/19

Address	1 WATER STREET CAMDEN, NJ, 08102-1658
Telephone	856-955-4001
CIK	0001410636
Symbol	AWK
SIC Code	4941 - Water Supply
Industry	Water Utilities
Sector	Utilities
Fiscal Year	12/31

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2019

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-34028

---

**AMERICAN WATER WORKS COMPANY, INC.**

*(Exact name of registrant as specified in its charter)*

---

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**51-0063696**

*(I.R.S. Employer Identification No.)*

**1 Water Street , Camden , NJ 08102-1658**

*(Address of principal executive offices) (Zip Code)*

**( 856 ) 955-4001**

*(Registrant's telephone number, including area code)*

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Common stock, par value \$0.01 per share</b>	<b>AWK</b>	<b>New York Stock Exchange</b>

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 such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Shares Outstanding as of July 25, 2019</u>
<b>Common Stock, \$0.01 par value per share</b>	<b>180,652,681</b>

---

## TABLE OF CONTENTS

	<u>Page</u>
<a href="#">Forward-Looking Statements</a>	<a href="#">1</a>
<a href="#">Part I. Financial Information</a>	
Item 1. <a href="#">Consolidated Financial Statements</a>	<a href="#">3</a>
Item 2. <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">24</a>
Item 3. <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">38</a>
Item 4. <a href="#">Controls and Procedures</a>	<a href="#">38</a>
<a href="#">Part II. Other Information</a>	
Item 1. <a href="#">Legal Proceedings</a>	<a href="#">39</a>
Item 1A. <a href="#">Risk Factors</a>	<a href="#">40</a>
Item 2. <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">40</a>
Item 3. <a href="#">Defaults Upon Senior Securities</a>	<a href="#">40</a>
Item 4. <a href="#">Mine Safety Disclosures</a>	<a href="#">41</a>
Item 5. <a href="#">Other Information</a>	<a href="#">41</a>
Item 6. <a href="#">Exhibits</a>	<a href="#">42</a>
<a href="#">Signatures</a>	<a href="#">43</a>

\* \* \*

Throughout this Quarterly Report on Form 10-Q (“Form 10-Q”), unless the context otherwise requires, references to “we”, “us”, “our”, the “Company” and “American Water” mean American Water Works Company, Inc. and all of its subsidiaries, taken together as a whole. References to “parent company” mean American Water Works Company, Inc., without its subsidiaries.

## **FORWARD-LOOKING STATEMENTS**

We have made statements in Part I, Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q, that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the Private Securities Litigation Reform Act of 1995. In some cases, these forward-looking statements can be identified by words with prospective meanings such as “intend,” “plan,” “estimate,” “believe,” “anticipate,” “expect,” “predict,” “project,” “propose,” “assume,” “forecast,” “likely,” “uncertain,” “outlook,” “future,” “pending,” “goal,” “objective,” “potential,” “continue,” “seek to,” “may,” “can,” “should,” “will” and “could” or the negative of such terms or other variations or similar expressions. Forward-looking statements may relate to, among other things: our future financial performance, including our operation and maintenance (“O&M”) efficiency ratio; our liquidity and future cash flows; our growth and portfolio optimization strategies; our projected capital expenditures and related funding requirements; our ability to repay debt; our projected strategy to finance current operations and growth initiatives; the outcome and impact of legal and similar governmental and regulatory proceedings and related potential fines, penalties and other sanctions; business process, technology improvement and other strategic initiatives; trends in our industry; regulatory, legislative, tax policy or legal developments; rate adjustments, including through general rate case filings, filings for infrastructure surcharges and filings to address regulatory lag; and impacts that the Tax Cuts and Jobs Act (the “TCJA”) may have on us and on our business, results of operations, cash flows and liquidity.

Forward-looking statements are predictions based on our current expectations and assumptions regarding future events. They are not guarantees or assurances of any outcomes, financial results, levels of activity, performance or achievements, and you are cautioned not to place undue reliance upon them. These forward-looking statements are subject to a number of estimates, assumptions, known and unknown risks, uncertainties and other factors. Our actual results may vary materially from those discussed in the forward-looking statements included herein as a result of the following important factors:

- the decisions of governmental and regulatory bodies, including decisions to raise or lower customer rates;
- the timeliness and outcome of regulatory commissions’ actions concerning rates, capital structure, authorized return on equity, capital investment, system acquisitions, taxes, permitting and other decisions;
- changes in customer demand for, and patterns of use of, water, such as may result from conservation efforts;
- limitations on the availability of our water supplies or sources of water, or restrictions on our use thereof, resulting from allocation rights, governmental or regulatory requirements and restrictions, drought, overuse or other factors;
- changes in laws, governmental regulations and policies, including with respect to environmental, health and safety, water quality and emerging contaminants, public utility and tax regulations and policies, and impacts resulting from U.S., state and local elections;
- weather conditions and events, climate variability patterns, and natural disasters, including drought or abnormally high rainfall, prolonged and abnormal ice or freezing conditions, strong winds, coastal and intercoastal flooding, earthquakes, landslides, hurricanes, tornadoes, wildfires, electrical storms and solar flares;
- the outcome of litigation and similar governmental and regulatory proceedings, investigations or actions;
- our ability to appropriately maintain current infrastructure, including our operational and technology systems, and manage the expansion of our business;
- exposure or infiltration of our critical infrastructure and our technology systems, including the disclosure of sensitive, personal or confidential information contained therein, through physical or cyber attacks or other means;
- our ability to obtain permits and other approvals for projects;
- changes in our capital requirements;
- our ability to control operating expenses and to achieve efficiencies in our operations;
- the intentional or unintentional actions of a third party, including contamination of our water supplies or water provided to our customers;
- 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 meet growth projections for our regulated and market-based businesses, either individually or in the aggregate, and capitalize on growth opportunities, including our ability to, among other things:
  - acquire, close and successfully integrate regulated operations and market-based businesses;
  - enter into contracts and other agreements with, or otherwise obtain, new customers in our market-based businesses; and

- realize anticipated benefits and synergies from new acquisitions;
- risks and uncertainties associated with contracting with the U.S. government, including ongoing compliance with applicable government procurement and security regulations;
- cost overruns relating to improvements in or the expansion of our operations;
- our ability to maintain safe work sites;
- our exposure to liabilities related to environmental laws and similar matters resulting from, among other things, water and wastewater service provided to customers, including, for example, our water transfer business focused on customers in the shale natural gas exploration and production market;
- changes in general economic, political, business and financial market conditions;
- access to sufficient capital on satisfactory terms and when and as needed to support operations and capital expenditures;
- fluctuations in interest rates;
- restrictive covenants in or changes to the credit ratings on us or our current or future debt that could increase our financing costs or funding requirements 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;
- changes in federal or state general, income and other tax laws, including any further rules, regulations, interpretations and guidance by the U.S. Department of the Treasury and state or local taxing authorities related to the enactment of the TCJA, the availability of tax credits and tax abatement programs, and our ability to utilize our U.S. federal and state income tax net operating loss (“NOL”) carryforwards;
- migration of customers into or out of our service territories;
- the use by municipalities of the power of eminent domain or other authority to condemn our systems, or the assertion by private landowners of similar rights against us;
- our difficulty or inability to obtain insurance, our inability to obtain insurance at acceptable rates and on acceptable terms and conditions, or our inability to obtain reimbursement under existing insurance programs for any losses sustained;
- the incurrence of impairment charges related to our goodwill or other assets;
- labor actions, including work stoppages and strikes;
- our ability to retain and attract qualified employees;
- civil disturbances or terrorist threats or acts, or public apprehension about future disturbances or terrorist threats or acts; and
- the impact of new, and changes to existing, accounting standards.

These forward-looking statements are qualified by, and should be read together with, the risks and uncertainties set forth above, and the risk factors and other statements contained in our Annual Report on Form 10-K for the year ended December 31, 2018 (“Form 10-K”) and in this Form 10-Q, and you should refer to such risks, uncertainties and risk factors in evaluating such forward-looking statements. Any forward-looking statements we make, speak only as of the date this Form 10-Q was filed with the U.S. Securities and Exchange Commission (“SEC”). Except as required by the federal securities laws, we do not have any obligation, and we specifically disclaim any undertaking or intention, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or otherwise. New factors emerge from time to time, and it is not possible for us to predict all such factors. Furthermore, it may not be possible to assess the impact of any such factor on our businesses, either viewed independently or together, or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. The foregoing factors should not be construed as exhaustive.

**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****American Water Works Company, Inc. and Subsidiary Companies****Consolidated Balance Sheets (Unaudited)**

(In millions, except share and per share data)

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
<b>ASSETS</b>		
Property, plant and equipment	\$ 23,355	\$ 23,204
Accumulated depreciation	(5,557)	(5,795)
Property, plant and equipment, net	<u>17,798</u>	<u>17,409</u>
Current assets:		
Cash and cash equivalents	64	130
Restricted funds	22	28
Accounts receivable, net	337	301
Unbilled revenues	179	186
Materials and supplies	48	41
Other	91	95
Total current assets	<u>741</u>	<u>781</u>
Regulatory and other long-term assets:		
Regulatory assets	1,180	1,156
Operating lease right-of-use assets	112	—
Goodwill	1,575	1,575
Intangible assets	78	84
Postretirement benefit assets	168	155
Other	202	63
Total regulatory and other long-term assets	<u>3,315</u>	<u>3,033</u>
Total assets	<u>\$ 21,854</u>	<u>\$ 21,223</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Balance Sheets (Unaudited)**  
(In millions, except share and per share data)

	June 30, 2019	December 31, 2018
<b>CAPITALIZATION AND LIABILITIES</b>		
Capitalization:		
Common stock (\$0.01 par value; 500,000,000 shares authorized; 185,742,324 and 185,367,158 shares issued, respectively)	\$ 2	\$ 2
Paid-in-capital	6,683	6,657
Accumulated deficit	(273)	(464)
Accumulated other comprehensive loss	(47)	(34)
Treasury stock, at cost (5,090,508 and 4,683,156 shares, respectively)	(338)	(297)
Total common shareholders' equity	6,027	5,864
Long-term debt	8,642	7,569
Redeemable preferred stock at redemption value	6	7
Total long-term debt	8,648	7,576
Total capitalization	14,675	13,440
Current liabilities:		
Short-term debt	397	964
Current portion of long-term debt	25	71
Accounts payable	140	175
Accrued liabilities	429	556
Accrued taxes	61	45
Accrued interest	88	87
Other	177	196
Total current liabilities	1,317	2,094
Regulatory and other long-term liabilities:		
Advances for construction	245	252
Deferred income taxes and investment tax credits	1,823	1,740
Regulatory liabilities	1,886	1,907
Operating lease liabilities	97	—
Accrued pension liabilities	398	390
Other	76	78
Total regulatory and other long-term liabilities	4,525	4,367
Contributions in aid of construction	1,337	1,322
Commitments and contingencies (See Note 9)		
Total capitalization and liabilities	\$ 21,854	\$ 21,223

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Operations (Unaudited)**  
(In millions, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Operating revenues	\$ 882	\$ 853	\$ 1,695	\$ 1,614
Operating expenses:				
Operation and maintenance	372	348	737	695
Depreciation and amortization	142	134	286	263
General taxes	72	69	141	139
(Gain) on asset dispositions and purchases	(6)	—	(9)	(2)
Total operating expenses, net	580	551	1,155	1,095
Operating income	302	302	540	519
Other income (expense):				
Interest, net	(94)	(86)	(187)	(170)
Non-operating benefit costs, net	4	2	8	5
Other, net	15	4	18	8
Total other income (expense)	(75)	(80)	(161)	(157)
Income before income taxes	227	222	379	362
Provision for income taxes	57	60	96	94
Net income attributable to common shareholders	\$ 170	\$ 162	\$ 283	\$ 268
Basic earnings per share: (a)				
Net income attributable to common shareholders	\$ 0.94	\$ 0.90	\$ 1.56	\$ 1.50
Diluted earnings per share:				
Net income attributable to common shareholders	\$ 0.94	\$ 0.91	\$ 1.56	\$ 1.50
Weighted-average common shares outstanding:				
Basic	181	179	181	179
Diluted	181	179	181	179

(a) Amounts may not calculate due to rounding.

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Comprehensive Income (Unaudited)**  
(In millions)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Net income attributable to common shareholders	\$ 170	\$ 162	\$ 283	\$ 268
Other comprehensive income (loss), net of tax:				
Defined benefit pension plans:				
Amortization of actuarial loss, net of tax of \$1 and \$2 for the three months ended June 30, 2019 and 2018, respectively, and \$1 for the six months ended June 30, 2019 and 2018	—	6	1	4
Foreign currency translation adjustment	(1)	—	(1)	—
Unrealized gain (loss) on cash flow hedges, net of tax of \$1 and \$0 for the three months ended June 30, 2019 and 2018, respectively, and \$(5) and \$2 for the six months ended June 30, 2019 and 2018, respectively	1	—	(13)	6
Net other comprehensive income (loss)	—	6	(13)	10
Comprehensive income attributable to common shareholders	\$ 170	\$ 168	\$ 270	\$ 278

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Cash Flows (Unaudited)**  
(In millions)

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 283	\$ 268
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation and amortization	286	263
Deferred income taxes and amortization of investment tax credits	85	82
Provision for losses on accounts receivable	10	12
Gain on asset dispositions and purchases	(9)	(2)
Pension and non-pension postretirement benefits	9	16
Other non-cash, net	(46)	(2)
Changes in assets and liabilities:		
Receivables and unbilled revenues	(40)	(41)
Pension and postretirement benefit contributions	(14)	—
Accounts payable and accrued liabilities	(47)	(54)
Other assets and liabilities, net	(37)	(17)
Net cash provided by operating activities	<u>480</u>	<u>525</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(712)	(739)
Acquisitions, net of cash acquired	(80)	(377)
Proceeds from sale of assets	16	7
Removal costs from property, plant and equipment retirements, net	(41)	(40)
Net cash used in investing activities	<u>(817)</u>	<u>(1,149)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long-term debt	1,184	15
Repayments of long-term debt	(146)	(119)
Net short-term borrowings with maturities less than three months	(568)	746
Proceeds from issuance of common stock	—	183
Proceeds from issuances of employee stock plans and direct stock purchase plan, net of taxes paid of \$9 and \$6 for the six months ended June 30, 2019 and 2018, respectively	6	6
Advances and contributions for construction, net of refunds of \$17 and \$16 for the six months ended June 30, 2019 and 2018, respectively	9	7
Debt issuance costs	(11)	—
Dividends paid	(173)	(155)
Anti-dilutive share repurchases	(36)	(45)
Net cash provided by financing activities	<u>265</u>	<u>638</u>
Net (decrease) increase in cash, cash equivalents and restricted funds	(72)	14
Cash, cash equivalents and restricted funds at beginning of period	159	83
Cash, cash equivalents and restricted funds at end of period	<u>\$ 87</u>	<u>\$ 97</u>
<b>Non-cash investing activity:</b>		
Capital expenditures acquired on account but unpaid as of the end of period	\$ 194	\$ 180

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**  
(In millions)

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital			Shares	At Cost	
Balance as of December 31, 2018	185.4	\$ 2	\$ 6,657	\$ (464)	\$ (34)	(4.7)	\$ (297)	\$ 5,864
Cumulative effect of change in accounting principle	—	—	—	(2)	—	—	—	(2)
Net income attributable to common shareholders	—	—	—	113	—	—	—	113
Direct stock reinvestment and purchase plan	—	—	1	—	—	—	—	1
Employee stock purchase plan	—	—	2	—	—	—	—	2
Stock-based compensation activity	0.2	—	8	—	—	(0.1)	(5)	3
Repurchases of common stock	—	—	—	—	—	(0.3)	(36)	(36)
Net other comprehensive loss	—	—	—	—	(13)	—	—	(13)
Balance as of March 31, 2019	185.6	\$ 2	\$ 6,668	\$ (353)	\$ (47)	(5.1)	\$ (338)	\$ 5,932
Net income attributable to common shareholders	—	—	—	170	—	—	—	170
Direct stock reinvestment and purchase plan	—	—	2	—	—	—	—	2
Employee stock purchase plan	—	—	3	—	—	—	—	3
Stock-based compensation activity	0.1	—	10	—	—	—	—	10
Dividends (\$0.50 declared per common share)	—	—	—	(90)	—	—	—	(90)
Balance as of June 30, 2019	185.7	\$ 2	\$ 6,683	\$ (273)	\$ (47)	(5.1)	\$ (338)	\$ 6,027

  

	Common Stock			Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Shareholders' Equity
	Shares	Par Value	Paid-in-Capital			Shares	At Cost	
Balance as of December 31, 2017	182.5	\$ 2	\$ 6,432	\$ (723)	\$ (79)	(4.1)	\$ (247)	\$ 5,385
Net income attributable to common shareholders	—	—	—	106	—	—	—	106
Direct stock reinvestment and purchase plan	—	—	1	—	—	—	—	1
Employee stock purchase plan	—	—	1	—	—	—	—	1
Stock-based compensation activity	0.2	—	4	—	—	(0.1)	(5)	(1)
Repurchases of common stock	—	—	—	—	—	(0.5)	(45)	(45)
Net other comprehensive income	—	—	—	—	4	—	—	4
Balance as of March 31, 2018	182.7	\$ 2	\$ 6,438	\$ (617)	\$ (75)	(4.7)	\$ (297)	\$ 5,451
Net income attributable to common shareholders	—	—	—	162	—	—	—	162
Direct stock reinvestment and purchase plan	0.1	—	3	—	—	—	—	3
Employee stock purchase plan	0.1	—	3	—	—	—	—	3
Stock-based compensation activity	—	—	10	(1)	—	—	—	9
Issuance of common stock	2.3	—	183	—	—	—	—	183
Net other comprehensive income	—	—	—	—	6	—	—	6
Dividends (\$0.455 declared per common share)	—	—	—	(81)	—	—	—	(81)
Balance as of June 30, 2018	185.2	\$ 2	\$ 6,637	\$ (537)	\$ (69)	(4.7)	\$ (297)	\$ 5,736

The accompanying notes are an integral part of these Consolidated Financial Statements.

**American Water Works Company, Inc. and Subsidiary Companies**  
**Notes to Consolidated Financial Statements (Unaudited)**  
(Unless otherwise noted, in millions, except per share data)

**Note 1: Basis of Presentation**

The unaudited Consolidated Financial Statements included in this report include the accounts of American Water Works Company, Inc. and all of its subsidiaries (the “Company” or “American Water”), in which a controlling interest is maintained after the elimination of intercompany balances and transactions. The unaudited Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting, and the rules and regulations for reporting on Quarterly Reports on Form 10-Q (“Form 10-Q”). Accordingly, they do not contain certain information and disclosures required by GAAP for comprehensive financial statements. In the opinion of management, all adjustments necessary for a fair statement of the financial position as of June 30, 2019, and the results of operations and cash flows for all periods presented have been made. All adjustments are of a normal, recurring nature, except as otherwise disclosed.

The unaudited Consolidated Financial Statements and Notes included in this report should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2018 (“Form 10-K”), which provides a more complete discussion of the Company’s accounting policies, financial position, operating results and other matters. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the year, primarily due to the seasonality of the Company’s operations.

**Note 2: Significant Accounting Policies**

***New Accounting Standards***

Presented in the table below are new accounting standards that were adopted by the Company in 2019:

<b>Standard</b>	<b>Description</b>	<b>Date of Adoption</b>	<b>Application</b>	<b>Effect on the Consolidated Financial Statements</b>
Accounting for Leases	Updated the accounting and disclosure guidance for leasing arrangements. Under this guidance, a lessee is required to recognize the following for all leases, excluding short-term leases, at the commencement date: (i) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. A package of optional transition practical expedients allows an entity not to reassess under the new guidance: (i) whether any expired or existing contracts as of the adoption date are or contain leases; (ii) lease classification; and (iii) initial direct costs. Additional, optional transition practical expedients are available which allow an entity not to evaluate expired or existing land easements as of the adoption date if the easements were not previously accounted for as leases; and to apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment in the opening balance of retained earnings in the period of adoption.	January 1, 2019	Modified retrospective	See Note 12—Leases.
Targeted Improvements to Accounting for Hedging Activities	Updated the accounting and disclosure guidance for hedging activities, allowing for more financial and nonfinancial hedging strategies to be eligible for hedge accounting. Under this guidance, a qualitative effectiveness assessment is permitted for certain hedges if an entity can reasonably support an expectation of high effectiveness throughout the term of the hedge, provided that an initial quantitative test establishes that the hedge relationship is highly effective. Also, for cash flow hedges determined to be highly effective, all changes in the fair value of the hedging instrument will be recorded in other comprehensive income, with a subsequent reclassification to earnings when the hedged item impacts earnings.	January 1, 2019	Modified retrospective for adjustments related to the measurement of ineffectiveness for cash flow hedges; prospective for the updated presentation and disclosure requirements.	The adoption did not have a material impact on the Consolidated Financial Statements.
Inclusion of the Secured Overnight Financing Rate (“SOFR”) Overnight Index Swap (“OIS”) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	Designated the OIS rate based on SOFR as an eligible U.S. benchmark interest rate for the purposes of applying hedge accounting.	January 1, 2019	Prospective	The adoption did not have a material impact on the Consolidated Financial Statements.

Presented in the table below are recently issued accounting standards that have not yet been adopted by the Company as of June 30, 2019 :

<b>Standard</b>	<b>Description</b>	<b>Date of Adoption</b>	<b>Application</b>	<b>Estimated Effect on the Consolidated Financial Statements</b>
Measurement of Credit Losses on Financial Instruments	Updated the accounting guidance on reporting credit losses for financial assets held at amortized cost basis and available-for-sale debt securities. Under this guidance, expected credit losses are required to be measured based on historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount of financial assets. Also, this guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down.	January 1, 2020; early adoption permitted	Modified retrospective	The Company is evaluating the impact on the Consolidated Financial Statements.
Changes to the Disclosure Requirements for Fair Value Measurement	Updated the disclosure requirements for fair value measurement. The guidance removes the requirements to disclose transfers between Level 1 and Level 2 measurements, the timing of transfers between levels, and the valuation processes for Level 3 measurements. Disclosure of transfers into and out of Level 3 measurements will be required. The guidance adds disclosure requirements for the change in unrealized gains and losses in other comprehensive income for recurring Level 3 measurements, as well as the range and weighted average of significant unobservable inputs used to develop Level 3 measurements.	January 1, 2020; early adoption permitted	Prospective for added disclosures and for the narrative description of measurement uncertainty; retrospective for all other amendments.	The standard will not have a material impact on the Consolidated Financial Statements.

***Cash, Cash Equivalents and Restricted Funds***

Presented in the table below is a reconciliation of the cash and cash equivalents and restricted funds amounts as presented on the Consolidated Balance Sheets to the sum of such amounts presented on the Consolidated Statements of Cash Flows for the periods ended June 30 :

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 64	\$ 68
Restricted funds	22	27
Restricted funds included in other long-term assets	1	2
Cash, cash equivalents and restricted funds as presented on the Consolidated Statements of Cash Flows	<u>\$ 87</u>	<u>\$ 97</u>

***Reclassifications***

Certain reclassifications have been made to prior periods in the Consolidated Financial Statements and Notes to conform to the current presentation.

**Note 3: Revenue Recognition**

***Disaggregated Revenues***

The Company’s primary business involves the ownership of regulated utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as the Company’s “ Regulated Businesses .” The Company also operates market-based businesses that provide a broad range of related and complementary water, wastewater and other services to residential and smaller commercial customers, the U.S. government on military installations and shale natural gas exploration and production companies, as well as municipalities, utilities and industrial customers, collectively presented as the Company’s “ Market-Based Businesses .”

Presented in the table below are operating revenues disaggregated for the three months ended June 30, 2019 :

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
<b>Regulated Businesses:</b>			
Water services:			
Residential	\$ 415	\$ —	\$ 415
Commercial	153	—	153
Fire service	35	—	35
Industrial	34	—	34
Public and other	51	—	51
Total water services	688	—	688
Wastewater services:			
Residential	28	—	28
Commercial	7	—	7
Public and other	5	—	5
Total wastewater services	40	—	40
Miscellaneous utility charges	8	—	8
Alternative revenue programs	—	17	17
Lease contract revenue	—	2	2
<b>Total Regulated Businesses</b>	<b>736</b>	<b>19</b>	<b>755</b>
Market-Based Businesses	132	—	132
Other	(5)	—	(5)
<b>Total operating revenues</b>	<b>\$ 863</b>	<b>\$ 19</b>	<b>\$ 882</b>

(a) Includes revenues associated with alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of Accounting Standards Codification Topic 606, *Revenue From Contracts With Customers* (“ASC 606”), and accounted for under other existing GAAP.

Presented in the table below are operating revenues disaggregated for the six months ended June 30, 2019 :

	Revenues from Contracts with Customers	Other Revenues Not from Contracts with Customers (a)	Total Operating Revenues
<b>Regulated Businesses:</b>			
Water services:			
Residential	\$ 793	\$ —	\$ 793
Commercial	289	—	289
Fire service	69	—	69
Industrial	66	—	66
Public and other	96	—	96
Total water services	1,313	—	1,313
Wastewater services:			
Residential	57	—	57
Commercial	14	—	14
Industrial	1	—	1
Public and other	8	—	8
Total wastewater services	80	—	80
Miscellaneous utility charges	18	—	18
Alternative revenue programs	—	24	24
Lease contract revenue	—	5	5
Total Regulated Businesses	1,411	29	1,440
Market-Based Businesses	266	—	266
Other	(10)	(1)	(11)
Total operating revenues	\$ 1,667	\$ 28	\$ 1,695

(a) Includes revenues associated with provisional rates, alternative revenue programs, lease contracts and intercompany rent, which are outside the scope of ASC 606, and accounted for under other existing GAAP.

### **Contract Balances**

Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. In the Company's Market-Based Businesses, certain contracts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Contract assets are recorded when billing occurs subsequent to revenue recognition and are reclassified to accounts receivable when billed and the right to consideration becomes unconditional. Contract liabilities are recorded when the Company receives advances from customers prior to satisfying contractual performance obligations, particularly for construction contracts and home warranty protection program contracts, and are recognized as revenue when the associated performance obligations are satisfied. Contract assets are included in unbilled revenues and contract liabilities are included in other current liabilities on the Consolidated Balance Sheets as of June 30, 2019.

Presented in the table below are the changes in contract assets and liabilities for the six months ended June 30, 2019 :

	<b>Amount</b>
<b>Contract assets:</b>	
Balance as of January 1, 2019	\$ 14
Additions	11
Transfers to accounts receivable, net	(18)
Balance as of June 30, 2019	<u>\$ 7</u>
<b>Contract liabilities:</b>	
Balance as of January 1, 2019	\$ 20
Additions	36
Transfers to operating revenues	(28)
Balance as of June 30, 2019	<u>\$ 28</u>

#### ***Remaining Performance Obligations***

Remaining performance obligations (“RPOs”) represent revenues the Company expects to recognize in the future from contracts that are in progress. The Company enters into agreements for the provision of services to water and wastewater facilities for the U.S. military, municipalities and other customers. As of June 30, 2019, the Company’s operation and maintenance and capital improvement contracts in the Market-Based Businesses have RPOs. Contracts with the U.S. government for work on various military installations expire between 2051 and 2069 and have RPOs of \$4.4 billion as of June 30, 2019, as measured by estimated remaining contract revenue. Such contracts are subject to customary termination provisions held by the U.S. government, prior to the agreed-upon contract expiration. Contracts with municipalities and commercial customers expire between 2020 and 2038 and have RPOs of \$571 million as of June 30, 2019, as measured by estimated remaining contract revenue.

#### **Note 4: Acquisitions**

During the six months ended June 30, 2019, the Company closed on the acquisition of nine regulated water and wastewater systems for a total aggregate purchase price of \$80 million, including the acquisition of the City of Alton, Illinois’ regional wastewater system on June 27, 2019 for \$55 million. Assets acquired from these acquisitions, principally utility plant, totaled \$81 million, and liabilities assumed totaled \$1 million. These acquisitions were predominately accounted for as business combinations, as the Company continues to grow its business through regulated acquisitions. The preliminary purchase price allocations related to acquisitions accounted for as business combinations will be finalized once the valuation of assets acquired has been completed, no later than one year after their acquisition date.

**Note 5: Shareholders' Equity**
**Accumulated Other Comprehensive Loss**

Presented in the table below are the changes in accumulated other comprehensive loss by component, net of tax, for the six months ended June 30, 2019 and 2018, respectively:

	Defined Benefit Pension Plans			Foreign Currency Translation	Gain (Loss) on Cash Flow Hedges	Accumulated Other Comprehensive Loss
	Funded Status	Amortization of Prior Service Cost	Amortization of Actuarial Loss			
Balance as of December 31, 2018	\$ (102)	\$ 1	\$ 56	\$ 1	\$ 10	\$ (34)
Other comprehensive loss before reclassifications	—	—	—	—	(13)	(13)
Amounts reclassified from accumulated other comprehensive loss	—	—	1	(1)	—	—
Net other comprehensive income (loss)	—	—	1	(1)	(13)	(13)
Balance as of June 30, 2019	\$ (102)	\$ 1	\$ 57	\$ —	\$ (3)	\$ (47)
Balance as of December 31, 2017	\$ (140)	\$ 1	\$ 49	\$ 1	\$ 10	\$ (79)
Other comprehensive income before reclassifications	—	—	—	—	6	6
Amounts reclassified from accumulated other comprehensive loss	—	—	4	—	—	4
Net other comprehensive income	—	—	4	—	6	10
Balance as of June 30, 2018	\$ (140)	\$ 1	\$ 53	\$ 1	\$ 16	\$ (69)

The Company does not reclassify the amortization of defined benefit pension cost components from accumulated other comprehensive loss directly to net income in its entirety, as a portion of these costs has been capitalized as a regulatory asset. These accumulated other comprehensive loss components are included in the computation of net periodic pension cost.

During the second quarter of 2019, the Company substantially exited its foreign operations in Canada due to a contract expiration in its Contract Services Group. As a result, the Company recognized a pre-tax gain of \$1 million from cumulative foreign currency translation, and a corresponding change of accumulated other comprehensive loss.

The amortization of the gain (loss) on cash flow hedges is reclassified to net income during the period incurred and is included in interest, net in the accompanying Consolidated Statements of Operations.

**Anti-Dilutive Stock Repurchase Program**

During the six months ended June 30, 2019, the Company repurchased 0.4 million shares of its common stock in the open market at an aggregate cost of \$36 million under the anti-dilutive stock repurchase program authorized by the Company's Board of Directors in 2015. As of June 30, 2019, there were 5.1 million shares of common stock available for repurchase under the program.

**Dividends**

On June 4, 2019, the Company paid a cash dividend of \$0.50 per share to shareholders of record as of May 13, 2019.

On July 26, 2019, the Company's Board of Directors declared a quarterly cash dividend payment of \$0.50 per share, payable on September 4, 2019 to shareholders of record as of August 9, 2019. Future dividends, when and as declared at the discretion of the Board of Directors, will be dependent upon future earnings and cash flows, compliance with various regulatory, financial and legal requirements, and other factors. See Note 9—Shareholders' Equity in the Notes to Consolidated Financial Statements in the Company's Form 10-K for additional information regarding the payment of dividends on the Company's common stock.



**Note 6: Long-Term Debt**

Presented in the table below are issuances of long-term debt during the six months ended June 30, 2019 :

Company	Type	Rate	Maturity	Amount
American Water Capital Corp.	Senior Notes—fixed rate	3.45%-4.15%	2029-2049	\$ 1,100
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate (a)	0.00%-5.00%	2021-2047	4
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	3.00%	2039	80
Total issuances				<u>\$ 1,184</u>

(a) This debt relates to the New Jersey Environmental Infrastructure Financing Program.

Presented in the table below are retirements and redemptions of long-term debt through sinking fund provisions, optional redemptions or payment at maturity, during the six months ended June 30, 2019 :

Company	Type	Rate	Maturity	Amount
American Water Capital Corp.	Senior Notes—fixed rate	7.21%	2019	\$ 25
American Water Capital Corp.	Private activity bonds and government funded debt—fixed rate	1.79%-2.90%	2021-2031	1
Other American Water subsidiaries	Private activity bonds and government funded debt—fixed rate	0.00%-6.20%	2019-2048	85
Other American Water subsidiaries	Mortgage bonds—fixed rate	5.48%-9.13%	2019-2021	28
Other American Water subsidiaries	Mandatorily redeemable preferred stock	8.49%	2036	1
Other American Water subsidiaries	Term loan	5.76%-5.81%	2021	6
Total retirements and redemptions				<u>\$ 146</u>

On May 13, 2019, American Water Capital Corp. (“AWCC”) completed a \$1.10 billion debt offering which included the sale of \$550 million aggregate principal amount of its 3.45% Senior Notes due 2029 and \$550 million aggregate principal amount of its 4.15% Senior Notes due 2049. At the closing of the offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately \$1.09 billion. AWCC used the net proceeds to: (i) lend funds to parent company and its regulated subsidiaries; (ii) repay \$25 million principal amount of AWCC’s 7.21% Series I Senior Notes at maturity on May 19, 2019; (iii) repay \$26 million aggregate principal amount of subsidiary debt at maturity during the second quarter of 2019; and (iv) repay AWCC’s commercial paper obligations, and for general corporate purposes.

On May 6, 2019, the Company terminated five forward starting swap agreements with an aggregate notional amount of \$510 million, realizing a net loss of \$30 million, to be amortized through interest, net over 10 and 30 year periods, in accordance with the terms of the new debt issued on May 13, 2019.

The Company has employed interest rate swaps to fix the interest cost on a portion of its variable-rate debt with an aggregate notional amount of \$3 million. The Company has designated these instruments as economic hedges, accounted for at fair value, with gains or losses recognized in interest, net. The gain recognized by the Company for the three and six months ended June 30, 2019 and 2018 was de minimis.

No ineffectiveness was recognized on hedging instruments for the three and six months ended June 30, 2019 and 2018.

Presented in the table below are the gross fair values of the Company’s derivative liabilities, as well as the location of the liability balances on the Consolidated Balance Sheets:

Derivative Instrument	Derivative Designation	Balance Sheet Classification	June 30, 2019	December 31, 2018
Liability derivative:				
Forward starting swaps	Cash flow hedge	Other current liabilities	\$ —	\$ 14

**Note 7: Income Taxes**

The Company's effective income tax rate was 25.1% and 27.0% for the three months ended June 30, 2019 and 2018, respectively, and 25.3% and 26.0% for the six months ended June 30, 2019 and 2018, respectively. The decrease in the Company's effective income tax rate during the three months ended June 30, 2019 was primarily due to the amortization of the excess accumulated deferred income taxes ("EADIT") resulting from the Tax Cuts and Jobs Act (the "TCJA"), which began for three of the Company's regulated subsidiaries in 2019, and unitary state adjustments recorded in 2018. The decrease in the Company's effective income tax rate during the six months ended June 30, 2019 was primarily due to the amortization of the EADIT resulting from the TCJA, partially offset by changes in executive compensation and other deductions under the TCJA.

**Note 8: Pension and Other Postretirement Benefits**

Presented in the table below are the components of net periodic benefit cost (credit):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Components of net periodic pension benefit cost:</b>				
Service cost	\$ 7	\$ 8	\$ 14	\$ 17
Interest cost	21	19	41	38
Expected return on plan assets	(23)	(24)	(45)	(49)
Amortization of prior service credit	(1)	—	(2)	—
Amortization of actuarial loss	8	7	16	14
<b>Net periodic pension benefit cost</b>	<b>\$ 12</b>	<b>\$ 10</b>	<b>\$ 24</b>	<b>\$ 20</b>
<b>Components of net periodic other postretirement benefit credit:</b>				
Service cost	\$ 1	\$ 2	\$ 2	\$ 5
Interest cost	4	5	7	11
Expected return on plan assets	(5)	(6)	(9)	(13)
Amortization of prior service credit	(9)	(4)	(17)	(9)
Amortization of actuarial loss	1	1	2	2
<b>Net periodic other postretirement benefit credit</b>	<b>\$ (8)</b>	<b>\$ (2)</b>	<b>\$ (15)</b>	<b>\$ (4)</b>

The Company contributed \$7 million and \$14 million for the funding of its defined benefit pension plans for the three and six months ended June 30, 2019, respectively, and made less than \$1 million of funding contributions for the three and six months ended June 30, 2018. The Company made no contributions for the funding of its other postretirement benefit plans for each of the three and six months ended June 30, 2019 and 2018. The Company expects to make pension contributions to the plan trusts of up to \$17 million during the remainder of 2019.

**Note 9: Commitments and Contingencies**
**Contingencies**

The Company is routinely involved in legal actions incident to the normal conduct of its business. As of June 30, 2019, the Company has accrued approximately \$21 million of probable loss contingencies and has estimated that the maximum amount of losses associated with reasonably possible loss contingencies that can be reasonably estimated is \$24 million. For certain matters, claims and actions, the Company is unable to estimate possible losses. The Company believes that damages or settlements, if any, recovered by plaintiffs in such matters, claims or actions, other than as described in this Note 9—Commitments and Contingencies, will not have a material adverse effect on the Company.

*West Virginia Elk River Freedom Industries Chemical Spill*

On June 8, 2018, the U.S. District Court for the Southern District of West Virginia granted final approval of a settlement class and global class action settlement (the "Settlement") for all claims and potential claims by all putative class members (collectively, the "Plaintiffs") arising out of the January 2014 Freedom Industries, Inc. chemical spill in West Virginia. The effective date of the Settlement was July 16, 2018.

Under the terms and conditions of the Settlement, West Virginia-American Water Company (“WVAWC”) and certain other Company affiliated entities (collectively, the “American Water Defendants”) did not admit, and will not admit, any fault or liability for any of the allegations made by the Plaintiffs in any of the actions that were resolved. Under federal class action rules, claimants had the right, until December 8, 2017, to elect to opt out of the final Settlement. Less than 100 of the estimated 225,000 putative class members elected to opt out from the Settlement, and these claimants will not receive any benefit from or be bound by the terms of the Settlement.

In June 2018, the Company and its remaining non-participating general liability insurance carrier settled for a payment to the Company of \$20 million, out of a maximum of \$25 million in potential coverage under the terms of the relevant policy, in exchange for a full release by the American Water Defendants of all claims against the insurance carrier related to the Freedom Industries chemical spill.

The aggregate pre-tax amount contributed by WVAWC of the \$126 million Settlement with respect to the Company, net of insurance recoveries, is \$19 million. As of June 30, 2019, \$7 million of the aggregate Settlement amount of \$126 million has been reflected in accrued liabilities, and \$7 million in offsetting insurance receivables has been reflected in other current assets on the Consolidated Balance Sheets. The amount reflected in accrued liabilities as of June 30, 2019 reflects \$18 million of reductions in the liability during the first six months of 2019, \$14 million of which was recorded as reductions to the offsetting insurance receivable reflected in other current assets. The Company has funded WVAWC’s contributions to the Settlement through existing sources of liquidity.

#### *Dunbar, West Virginia Water Main Break Class Action Litigation*

On the evening of June 23, 2015, a 36-inch pre-stressed concrete transmission water main, installed in the early 1970s, failed. The water main is part of WVAWC’s West Relay pumping station located in the City of Dunbar. The failure of the main caused water outages and low pressure for up to approximately 25,000 WVAWC customers. In the early morning hours of June 25, 2015, crews completed a repair, but that same day, the repair developed a leak. On June 26, 2015, a second repair was completed and service was restored that day to approximately 80% of the impacted customers, and to the remaining approximately 20% by the next morning. The second repair showed signs of leaking, but the water main was usable until June 29, 2015 to allow tanks to refill. The system was reconfigured to maintain service to all but approximately 3,000 customers while a final repair was completed safely on June 30, 2015. Water service was fully restored by July 1, 2015 to all customers affected by this event.

On June 2, 2017, a class action complaint was filed in West Virginia Circuit Court in Kanawha County against WVAWC on behalf of a purported class of residents and business owners who lost water service or pressure as a result of the Dunbar main break. The complaint alleges breach of contract by WVAWC for failure to supply water, violation of West Virginia law regarding the sufficiency of WVAWC’s facilities and negligence by WVAWC in the design, maintenance and operation of the water system. The plaintiffs seek unspecified alleged damages on behalf of the class for lost profits, annoyance and inconvenience, and loss of use, as well as punitive damages for willful, reckless and wanton behavior in not addressing the risk of pipe failure and a large outage.

In October 2017, WVAWC filed with the court a motion seeking to dismiss all of the plaintiffs’ counts alleging statutory and common law tort claims. Furthermore, WVAWC asserted that the Public Service Commission of West Virginia, and not the court, has primary jurisdiction over allegations involving violations of the applicable tariff, the public utility code and related rules. On May 30, 2018, the court, at a hearing, denied WVAWC’s motion to apply the primary jurisdiction doctrine, and on October 11, 2018, the court issued a written order to that effect. On February 21, 2019, the court issued an order denying WVAWC’s motion to dismiss the plaintiffs’ tort claims. The court requested that the parties submit a scheduling order with a trial date of August 26, 2019. The parties by agreement proposed to the court an agreed-upon scheduling order with a June 2020 trial date. The court did not enter the order because the trial date is not available, so setting a new trial date and schedule remains pending. Discovery in this case is ongoing.

The Company and WVAWC believe that WVAWC has valid, meritorious defenses to the claims raised in this class action complaint. WVAWC is vigorously defending itself against these allegations. Given the current stage of this proceeding, the Company cannot reasonably estimate the amount of any reasonably possible losses or a range of such losses related to this proceeding.

**Note 10: Earnings per Common Share**

Presented in the table below is a reconciliation of the numerator and denominator for the basic and diluted earnings per share (“EPS”) calculations:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Numerator:				
Net income attributable to common shareholders	\$ 170	\$ 162	\$ 283	\$ 268
Denominator:				
Weighted-average common shares outstanding—Basic	181	179	181	179
Effect of dilutive common stock equivalents	—	—	—	—
Weighted-average common shares outstanding—Diluted	181	179	181	179

The effect of dilutive common stock equivalents is related to outstanding stock options, restricted stock units and performance stock units granted under the Company’s 2007 and 2017 Omnibus Equity Compensation Plans, as well as estimated shares to be purchased under the Company’s 2017 Nonqualified Employee Stock Purchase Plan. Less than one million share-based awards were excluded from the computation of diluted EPS for the three and six months ended June 30, 2019 and 2018 because their effect would have been anti-dilutive under the treasury stock method.

**Note 11: Fair Value of Financial Information**
**Fair Value of Financial Instruments**

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities—The carrying amounts reported on the Consolidated Balance Sheets for current assets and current liabilities, including revolving credit debt, due to the short-term maturities and variable interest rates, approximate their fair values.

Preferred stock with mandatory redemption requirements and long-term debt—The fair values of preferred stock with mandatory redemption requirements and long-term debt are categorized within the fair value hierarchy based on the inputs that are used to value each instrument. The fair value of long-term debt classified as Level 1 is calculated using quoted prices in active markets. Level 2 instruments are valued using observable inputs and Level 3 instruments are valued using observable and unobservable inputs. The fair values of instruments classified as Level 2 and Level 3 are determined by a valuation model that is based on a conventional discounted cash flow methodology and utilizes assumptions of current market rates. The Company calculated a base yield curve using a risk-free rate (a U.S. Treasury securities yield curve) plus a credit spread that is based on the following two factors: an average of the Company’s own publicly-traded debt securities and the current market rates for U.S. Utility A debt securities. The Company used these yield curve assumptions to derive a base yield for the Level 2 and Level 3 securities. Additionally, the Company adjusted the base yield for specific features of the debt securities, including call features, coupon tax treatment and collateral for the Level 3 instruments.

Presented in the tables below are the carrying amounts, including fair value adjustments previously recognized in acquisition purchase accounting, and the fair values of the Company’s financial instruments:

	Carrying Amount	At Fair Value as of June 30, 2019			Total
		Level 1	Level 2	Level 3	
Preferred stock with mandatory redemption requirements	\$ 7	\$ —	\$ —	\$ 9	\$ 9
Long-term debt (excluding finance lease obligations)	8,666	7,436	415	1,650	9,501
At Fair Value as of December 31, 2018					
	Carrying Amount	Level 1	Level 2	Level 3	Total
Preferred stock with mandatory redemption requirements	\$ 8	\$ —	\$ —	\$ 9	\$ 9
Long-term debt (excluding finance lease obligations)	7,638	5,760	433	1,728	7,921



**Recurring Fair Value Measurements**

Presented in the tables below are assets and liabilities measured and recorded at fair value on a recurring basis and their level within the fair value hierarchy:

	At Fair Value as of June 30, 2019			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Restricted funds	\$ 23	\$ —	\$ —	\$ 23
Rabbi trust investments	15	—	—	15
Deposits	3	—	—	3
Other investments	4	—	—	4
<b>Total assets</b>	<b>45</b>	<b>—</b>	<b>—</b>	<b>45</b>
<b>Liabilities:</b>				
Deferred compensation obligations	19	—	—	19
<b>Total liabilities</b>	<b>19</b>	<b>—</b>	<b>—</b>	<b>19</b>
<b>Total assets</b>	<b>\$ 26</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 26</b>

	At Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Restricted funds	\$ 29	\$ —	\$ —	\$ 29
Rabbi trust investments	15	—	—	15
Deposits	3	—	—	3
Other investments	3	—	—	3
<b>Total assets</b>	<b>50</b>	<b>—</b>	<b>—</b>	<b>50</b>
<b>Liabilities:</b>				
Deferred compensation obligations	17	—	—	17
Mark-to-market derivative liabilities	—	14	—	14
<b>Total liabilities</b>	<b>17</b>	<b>14</b>	<b>—</b>	<b>31</b>
<b>Total assets (liabilities)</b>	<b>\$ 33</b>	<b>\$ (14)</b>	<b>\$ —</b>	<b>\$ 19</b>

Restricted funds—The Company’s restricted funds primarily represent proceeds received from financings for the construction and capital improvement of facilities and from customers for future services under operations, maintenance and repair projects. Long-term restricted funds of \$1 million were included in other long-term assets on the Consolidated Balance Sheets as of June 30, 2019 and December 31, 2018 .

Rabbi trust investments—The Company’s rabbi trust investments consist of equity and index funds from which supplemental executive retirement plan benefits and deferred compensation obligations can be paid. The Company includes these assets in other long-term assets on the Consolidated Balance Sheets.

Deposits—Deposits include escrow funds and certain other deposits held in trust. The Company includes cash deposits in other current assets on the Consolidated Balance Sheets.

Deferred compensation obligations—The Company’s deferred compensation plans allow participants to defer certain cash compensation into notional investment accounts. The Company includes such plans in other long-term liabilities on the Consolidated Balance Sheets. The value of the Company’s deferred compensation obligations is based on the market value of the participants’ notional investment accounts. The notional investments are comprised primarily of mutual funds, which are based on observable market prices.

Mark-to-market derivative assets and liabilities—The Company utilizes fixed-to-floating interest-rate swaps, typically designated as fair-value hedges, to achieve a targeted level of variable-rate debt as a percentage of total debt. The Company also employs derivative financial instruments in the form of variable-to-fixed interest rate swaps and forward starting interest rate swaps, classified as economic hedges and cash flow hedges, respectively, in order to fix the interest cost on existing or forecasted debt. The Company uses a calculation of future cash inflows and estimated future outflows, which are discounted, to determine the current fair value. Additional inputs to the present value calculation include the contract terms, counterparty credit risk, interest rates and market volatility.

Other investments—Other investments primarily represent money market funds used for active employee benefits. The Company includes other investments in other current assets on the Consolidated Balance Sheets.

## **Note 12: Leases**

On January 1, 2019, the Company adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, and all related amendments (collectively, the “Standard”). The Company implemented the guidance in the Standard using the modified retrospective approach and applied the optional transition method, which allowed entities to apply the new Standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this approach, prior periods have not been restated and continue to be reported under the accounting standards in effect for those periods. The Standard includes practical expedients, which relate to the identification and classification of leases that commenced before the adoption date, initial direct costs for leases that commenced before the adoption date, the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset and the ability to carry forward accounting treatment for existing land easements. The Company has made an accounting policy election not to include leases with a lease term of twelve months or less in the adoption of the Standard.

Adoption of the Standard resulted in the recognition of operating lease right-of-use (“ROU”) assets and operating lease liabilities as of January 1, 2019 of approximately \$117 million and \$115 million, respectively. The difference between the ROU assets and operating lease liabilities was recorded as an adjustment to retained earnings. The Standard did not materially impact the Company’s consolidated results of operations and had no impact on cash flows.

The Company’s ROU assets represent the right to use an underlying asset for the lease term and the Company’s lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are generally recognized at the commencement date based on the present value of discounted lease payments over the lease term. As most of the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of discounted lease payments. The implicit rate is used when readily determinable. ROU assets also include any upfront lease payments and excludes lease incentives. The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets, accrued liabilities and operating lease liabilities on the Consolidated Balance Sheets. Finance leases are included in property, plant and equipment, accrued liabilities and other long-term liabilities on the Consolidated Balance Sheets.

The Company has lease agreements with lease components (e.g., fixed payments including rent, real estate taxes and insurance costs) and non-lease components (e.g., common-area maintenance costs), which are generally accounted for separately; however, the Company accounts for the lease and non-lease components as a single lease component for certain leases. Additionally, the Company applies a portfolio approach to effectively account for the ROU assets and lease liabilities.

The Company has operating and finance leases involving real property, including facilities, utility assets, vehicles, and equipment. Certain operating leases have renewal options ranging from one to 60 years. The exercise of lease renewal options is at the Company’s sole discretion. Renewal options that the Company was reasonably certain to exercise are included in the Company’s ROU assets. Certain operating leases contain the option to purchase the leased property. The operating leases for real property, vehicles and equipment will expire over the next 40 years, seven years, and five years, respectively. Certain lease agreements include variable rental payments adjusted periodically for inflation. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company participates in a number of arrangements with various public entities (“Partners”) in West Virginia. Under these arrangements, the Company transferred a portion of its utility plant to the Partners in exchange for an equal principal amount of Industrial Development Bonds (“IDBs”) issued by the Partners under the Industrial Development and Commercial Development Bond Act. The Company leased back the utility plant under agreements for a period of 30 to 40 years. The Company has recorded these agreements as finance leases in property, plant and equipment, as ownership of the assets will revert back to the Company at the end of the lease term. The Company determined that the finance lease obligations and the investments in IDBs meet the conditions for offsetting, and as such, are reported net on the Consolidated Balance Sheets and excluded from the finance lease disclosure presented below.

[Table of Contents](#)

The Company also enters into operation and maintenance (“O&M”) agreements with the Partners. The Company pays an annual fee for use of the Partners’ assets in performing under the O&M agreements. The O&M agreements are recorded as operating leases, and future annual use fees of \$4 million in 2019 through 2023, and \$59 million thereafter, are included in operating lease right-of-use assets and operating lease liabilities on the Consolidated Balance Sheets.

Rental expenses under operating and finance leases were \$4 million and \$8 million for the three and six months ended June 30, 2019 , respectively.

Presented in the table below is supplemental cash flow information:

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Cash paid for amounts in lease liabilities (a)	\$ 5	\$ 9
Right-of-use assets obtained in exchange for new operating lease liabilities	—	119

(a) Includes operating and financing cash flows from operating and finance leases.

Presented in the table below are the weighed-average remaining lease terms and the weighted-average discount rates for finance and operating leases:

	As of June 30, 2019
Weighted-average remaining lease term:	
Finance lease	7 years
Operating leases	18 years
Weighted-average discount rate:	
Finance lease	12%
Operating leases	4%

Presented in the table below are the future maturities of lease liabilities at June 30, 2019 :

	Amount
2019	\$ 8
2020	15
2021	13
2022	12
2023	8
Thereafter	106
Total lease payments	162
Imputed interest	(54)
Total	\$ 108

Presented in the table below are the future minimum rental commitments, as of December 31, 2018, under operating leases that have initial or remaining non-cancelable lease terms over the next five years and thereafter:

	<b>Amount</b>
2019	\$ 17
2020	15
2021	12
2022	11
2023	6
Thereafter	80
<b>Total</b>	<b>\$ 141</b>

### Note 13: Segment Information

The Company's operating segments are comprised of the revenue-generating components of its businesses for which separate financial information is internally produced and regularly used by management to make operating decisions and assess performance. The Company operates its businesses primarily through one reportable segment, the Regulated Businesses segment. The Company also operates market-based businesses that provide a broad range of related and complementary water and wastewater services within non-reportable operating segments, collectively referred to as the Market-Based Businesses. "Other" includes corporate costs that are not allocated to the Company's operating segments, eliminations of inter-segment transactions, fair value adjustments and associated income and deductions related to the acquisitions that have not been allocated to the operating segments for evaluation of performance and allocation of resource purposes. The adjustments related to the acquisitions are reported in Other as they are excluded from segment performance measures evaluated by management.

Presented in the tables below is summarized segment information:

	<b>As of or for the Three Months Ended June 30, 2019</b>			
	<b>Regulated Businesses</b>	<b>Market-Based Businesses</b>	<b>Other</b>	<b>Consolidated</b>
Operating revenues	\$ 755	\$ 132	\$ (5)	\$ 882
Depreciation and amortization	132	8	2	142
Total operating expenses, net	480	106	(6)	580
Interest, net	(74)	1	(21)	(94)
Income before income taxes	208	29	(10)	227
Provision for income taxes	52	8	(3)	57
Net income attributable to common shareholders	156	21	(7)	170
Total assets	19,338	1,056	1,460	21,854
Capital expenditures	378	4	4	386

	<b>As of or for the Three Months Ended June 30, 2018</b>			
	<b>Regulated Businesses</b>	<b>Market-Based Businesses</b>	<b>Other</b>	<b>Consolidated</b>
Operating revenues	\$ 744	\$ 114	\$ (5)	\$ 853
Depreciation and amortization	123	7	4	134
Total operating expenses, net	453	98	—	551
Interest, net	(69)	2	(19)	(86)
Income before income taxes	226	18	(22)	222
Provision for income taxes	59	5	(4)	60
Net income attributable to common shareholders	167	13	(18)	162
Total assets	18,197	818	1,456	20,471
Capital expenditures	347	1	27	375

## As of or for the Six Months Ended June 30, 2019

	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 1,440	\$ 266	\$ (11)	\$ 1,695
Depreciation and amortization	262	17	7	286
Total operating expenses, net	950	214	(9)	1,155
Interest, net	(147)	2	(42)	(187)
Income before income taxes	358	56	(35)	379
Provision for income taxes	92	15	(11)	96
Net income attributable to common shareholders	266	41	(24)	283
Total assets	19,338	1,056	1,460	21,854
Capital expenditures	693	8	11	712

## As of or for the Six Months Ended June 30, 2018

	Regulated Businesses	Market-Based Businesses	Other	Consolidated
Operating revenues	\$ 1,410	\$ 214	\$ (10)	\$ 1,614
Depreciation and amortization	245	11	7	263
Total operating expenses, net	915	184	(4)	1,095
Interest, net	(138)	3	(35)	(170)
Income before income taxes	368	34	(40)	362
Provision for income taxes	97	9	(12)	94
Net income attributable to common shareholders	271	25	(28)	268
Total assets	18,197	818	1,456	20,471
Capital expenditures	677	7	55	739

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read together with the unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Form 10-Q, and in our Form 10-K for the year ended December 31, 2018. This discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business, operations and financial performance. The cautionary statements made in this Form 10-Q should be read as applying to all related forward-looking statements whenever they appear in this Form 10-Q. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under "Forward-Looking Statements," and elsewhere in this Form 10-Q.*

### Overview

American Water is the largest and most geographically diverse, publicly-traded water and wastewater utility company in the United States, as measured by both operating revenues and population served. Our primary business involves the ownership of utilities that provide water and wastewater services to residential, commercial, industrial, public authority, fire service and sale for resale customers, collectively presented as our "Regulated Businesses." Services provided by our utilities are generally subject to economic regulation by certain state utility commissions or other entities engaged in utility regulation, collectively referred to as public utility commissions ("PUCs" or "Regulators"). We also operate market-based businesses that provide a broad range of related and complementary water, wastewater and other services to residential and smaller commercial customers, the U.S. government on military installations and shale natural gas exploration and production companies, as well as municipalities, utilities and industrial customers, collectively presented as our "Market-Based Businesses." These businesses are not subject to economic regulation by state PUCs. See Part I, Item 1—Business in our Form 10-K for additional information.

### Operating Highlights

- Closed on the acquisition of the City of Alton, Illinois' regional wastewater system on June 27, 2019 for \$55 million. This system currently serves approximately 23,000 wastewater customers, comprised of 11,000 customers in Alton and an additional 12,000 customers under bulk contracts in the nearby communities of Bethalto and Godfrey.
- Finalized two general rate case proceedings:
  - An order was received for our Kentucky subsidiary's general rate case filing, authorizing annualized incremental revenues of \$13 million, effective June 28, 2019.
  - A settlement in our Indiana subsidiary's general rate case filing was approved, authorizing annualized incremental revenues of \$4 million in the first rate year, effective July 1, 2019, and \$13 million in the second rate year, effective approximately May 1, 2020.
- American Water Capital Corp. ("AWCC"), our wholly owned finance subsidiary, completed a \$1.10 billion debt offering on May 13, 2019, which included the sale of \$550 million aggregate principal amount of its 3.45% Senior Notes due 2029 and \$550 million aggregate principal amount of its 4.15% Senior Notes due 2049. Net proceeds from this offering were used to lend funds to parent company and its regulated subsidiaries, repay various senior notes and regulated subsidiary debt obligations at maturity, and repay commercial paper obligations, and for general corporate purposes. See Note 6—Long-Term Debt in the Notes to Consolidated Financial Statements for additional information.
- On June 7, 2019, Standard & Poor's Ratings Service affirmed the Company's long-term 'A' and short-term 'A-1' credit ratings, with a stable outlook.

**Financial Results**

Presented in the table below are our diluted earnings per share, as determined in accordance with accounting principles generally accepted in the United States (“GAAP”), and our adjusted diluted earnings per share (a non-GAAP measure):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Diluted earnings per share (GAAP):</b>				
Net income attributable to common shareholders	\$ 0.94	\$ 0.91	\$ 1.56	\$ 1.50
<b>Adjustments:</b>				
Freedom Industries settlement activities	—	(0.11)	(0.02)	(0.11)
Income tax impact	—	0.03	0.01	0.03
Net adjustments	—	(0.08)	(0.01)	(0.08)
<b>Adjusted diluted earnings per share (non-GAAP)</b>	<b>\$ 0.94</b>	<b>\$ 0.83</b>	<b>\$ 1.55</b>	<b>\$ 1.42</b>

For the three and six months ended June 30, 2019, diluted earnings per share (GAAP) were \$0.94 and \$1.56, respectively, an increase of \$0.03 per diluted share, or 3.3%, and \$0.06 per diluted share, or 4.0%, respectively, as compared to the prior year. Included in these amounts are the items presented in the table above and discussed in greater detail in “Adjustments to GAAP” below.

Excluding the items presented in the table above, adjusted diluted earnings per share (non-GAAP) were \$0.94 and \$1.55 for the three and six months ended June 30, 2019, respectively, an increase of \$0.11 per diluted share, or 13.3%, and \$0.13 per diluted share, or 9.2%, respectively, compared to the prior year.

These increases were driven by continued growth in our Regulated Businesses from infrastructure investment, acquisitions and organic growth, combined with growth in our Market-Based Businesses, primarily from our Homeowner Services Group’s 2018 acquisition of Pivotal Home Solutions (“Pivotal”), and from our Military Services Group’s addition of two new military contracts in 2018. Additionally, during the second quarter of 2019, there was an increase at parent company from the sale of a legacy investment, partially offset by higher interest expense supporting growth in the business.

**Adjustments to GAAP**

Adjusted diluted earnings per share represents a non-GAAP financial measure and is calculated as GAAP diluted earnings per share, excluding the impact of previously disclosed settlement activities related to the Freedom Industries chemical spill settlement in West Virginia. See Note 9—Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information.

We believe that this non-GAAP measure provides investors with useful information by excluding certain matters that may not be indicative of our ongoing operating results, and that providing this non-GAAP measure will allow investors to better understand our businesses’ operating performance and facilitate a meaningful year-to-year comparison of our results of operations. Although management uses this non-GAAP financial measure internally to evaluate our results of operations, we do not intend results reflected by this non-GAAP measure to represent results as defined by GAAP, and the reader should not consider them as indicators of performance. This non-GAAP financial measure is derived from our consolidated financial information but is not presented in our financial statements prepared in accordance with GAAP. This measure should be considered in addition to, and not as a substitute for, measures of financial performance prepared in accordance with GAAP. In addition, this non-GAAP financial measure as defined and used above, may not be comparable to similarly titled non-GAAP measures used by other companies, and, accordingly, may have significant limitations on its use.

**Focusing on Central Themes**

In 2019, our strategy, which is driven by our vision and values, will continue to be anchored on our five central themes: (i) safety; (ii) customer; (iii) people; (iv) growth; and (v) operational excellence. We continue to focus on operating our business responsibly and managing our operating and capital costs in a manner that benefits our customers and produces long-term value for our shareholders. Additionally, we continue to execute on our ongoing strategy that ensures a safe workplace for our employees, emphasizes public safety for our customers and communities, and leverages our human resources, processes and technology innovation to make our business more effective and efficient. The progress that we have made during the first six months of 2019 with respect to growth and operational excellence is described below.

***Growth—We continue to grow our business through continued capital investment in our infrastructure and regulated acquisitions***

During the first six months of 2019 , we made capital investments of approximately \$792 million , focused in two key areas:

- \$712 million , of which the majority was in our Regulated Businesses for infrastructure improvements; and
- \$80 million for acquisitions in our Regulated Businesses , which added approximately 28,400 water and wastewater customers through June 30, 2019 , including the acquisition of the City of Alton, Illinois’ regional wastewater system. We have currently entered into agreements for pending acquisitions in our Regulated Businesses to add approximately 38,200 additional customers.

For the full year of 2019 , our capital investments, including acquisitions, are expected to be in the range of \$1.8 billion to \$1.9 billion .

***Operational Excellence—We continue to strive for industry-leading operational efficiency***

Our adjusted O&M efficiency ratio, which we use as a measure of the operating performance of our Regulated Businesses , was 35.4% for the twelve months ended June 30, 2019 , as compared to 35.3% for the twelve months ended June 30, 2018 , with all periods prior to January 1, 2018 presented on a pro forma basis to include the estimated impact of the TCJA on operating revenues. The slight unfavorable change in this ratio was largely due to the impact on revenue from the unusually wet weather conditions experienced in the Northeast and Midwest.

Our adjusted O&M efficiency ratio is defined as the operation and maintenance expenses from our Regulated Businesses , divided by the pro forma operating revenues from our Regulated Businesses , where both operation and maintenance expenses and pro forma operating revenues were adjusted to eliminate purchased water expense. Additionally, from operation and maintenance expenses, we excluded the allocable portion of non-operation and maintenance support services costs, mainly depreciation and general taxes, which are reflected in our Regulated Businesses segment as operation and maintenance expenses, but for consolidated financial reporting purposes, are categorized within other line items in the accompanying Consolidated Statements of Operations.

In addition to the adjustments discussed above, for period-to-period comparability purposes, we have presented the estimated impact of the TCJA on operating revenues for our Regulated Businesses on a pro forma basis for all periods presented prior to January 1, 2018, as if the lower federal corporate income tax rate was in effect for these periods (see “Tax Matters” below for additional information). We also made the following adjustments to our O&M efficiency ratio: (i) excluded from operation and maintenance expenses, the impact of certain Freedom Industries chemical spill settlement activities recognized in 2017 and 2018, and the impact of the reduction of the liability related to the Freedom Industries chemical spill settlement recognized in the first quarter of 2019 (see Note 9—Commitments and Contingencies in the Notes to Consolidated Financial Statements and “—Financial Results—Adjustments to GAAP” above for additional information); and (ii) excluded from operation and maintenance expenses, the impact of the Company’s January 1, 2018 adoption of Accounting Standards Update 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (“ASU 2017-07”), for 2017, 2018 and 2019 (see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements in our Form 10-K for additional information). We excluded the items discussed above from the calculation as we believe such items are not reflective of management’s ability to increase the efficiency of our Regulated Businesses .

We evaluate our operating performance using this ratio, and believe it is useful to investors, because it directly measures improvement in the efficiency of our Regulated Businesses . This information is derived from our consolidated financial information but is not presented in our financial statements prepared in accordance with GAAP. This information is intended to enhance an investor’s overall understanding of our operating performance. Our adjusted O&M efficiency ratio is not an accounting measure that is based on GAAP, may not be comparable to other companies’ operating measures and should not be used in place of the GAAP information provided elsewhere in this Form 10-Q.

Presented in the table below is the calculation of our adjusted O&M efficiency ratio and a reconciliation that compares operation and maintenance expenses and operating revenues, each as determined in accordance with GAAP, to those amounts utilized in the calculation of our adjusted O&M efficiency ratio:

(Dollars in millions)	For the Twelve Months Ended June 30,	
	2019	2018
Total operation and maintenance expenses (a)	\$ 1,520	\$ 1,383
Less:		
Operation and maintenance expenses—Market-Based Businesses	387	334
Operation and maintenance expenses—Other (a)	(48)	(40)
Total operation and maintenance expenses—Regulated Businesses (a)	1,181	1,089
Less:		
Regulated purchased water expenses	132	133
Allocation of non-operation and maintenance expenses	33	29
Impact of Freedom Industries settlement activities (b)	(4)	(42)
Adjusted operation and maintenance expenses—Regulated Businesses (i)	\$ 1,020	\$ 969
Total operating revenues	\$ 3,521	\$ 3,371
Less:		
Pro forma adjustment for impact of the TCJA (c)	—	87
Total pro forma operating revenues	3,521	3,284
Less:		
Operating revenues—Market-Based Businesses	528	430
Operating revenues—Other	(22)	(22)
Total pro forma operating revenues—Regulated Businesses	3,015	2,876
Less:		
Regulated purchased water revenues (d)	132	133
Adjusted pro forma operating revenues—Regulated Businesses (ii)	\$ 2,883	\$ 2,743
Adjusted O&M efficiency ratio—Regulated Businesses (i) / (ii)	35.4%	35.3%

(a) Includes the impact of the Company's adoption of ASU 2017-07 on January 1, 2018.

(b) Includes the impact of settlements in 2017 and 2018 with two of our general liability insurance carriers, and the reduction of the liability related to the Freedom Industries chemical spill in the first quarter of 2019.

(c) Includes the estimated impact of the TCJA on operating revenues for our Regulated Businesses for all periods presented prior to January 1, 2018, as if the lower federal corporate income tax rate was in effect for these periods.

(d) The calculation assumes regulated purchased water revenues approximate regulated purchased water expenses.

## Regulatory Matters

Presented in the table below are annualized incremental revenues, assuming a constant water sales volume, resulting from general rate cases and infrastructure surcharges that became effective:

(In millions)	During the Three Months Ended June 30, 2019	During the Six Months Ended June 30, 2019
General rate cases by state:		
Kentucky (effective June 28, 2019)	\$ 13	\$ 13
California (a)	4	4
New York (b)	4	4
West Virginia (effective February 25, 2019)	—	19
Maryland (effective February 5, 2019)	—	1
<b>Total general rate cases</b>	<b>\$ 21</b>	<b>\$ 41</b>
Infrastructure surcharges by state:		
Missouri (effective June 24, 2019)	\$ 9	\$ 9
Pennsylvania (effective April 1, 2019)	2	2
Illinois (effective January 1, 2019)	—	8
West Virginia (effective January 1, 2019)	—	2
<b>Total infrastructure surcharges</b>	<b>\$ 11</b>	<b>\$ 21</b>

- (a) Our California subsidiary received approval for the second rate year (2019) step increase associated with its most recent general rate case authorization, effective May 11, 2019.
- (b) Our New York subsidiary implemented its third step increase associated with its most recent general rate case authorization, effective April 1, 2019.

Our Indiana subsidiary received an order approving a joint settlement agreement with all major parties with respect to its general rate case filing, authorizing annualized incremental revenues of \$4 million in the first rate year, effective July 1, 2019, and \$13 million in the second rate year, effective approximately May 1, 2020.

Effective July 1, 2019, our New Jersey and Pennsylvania subsidiaries implemented infrastructure surcharges for annualized incremental revenues of \$15 million and \$3 million, respectively.

### Pending General Rate Case Filings

On July 1, 2019, our California subsidiary filed a general rate case requesting \$26 million annualized incremental revenues for 2021, and increases of \$10 million and \$11 million in the escalation year of 2022 and the attrition year of 2023, respectively.

In 2018, our Virginia subsidiary filed a general rate case requesting \$5 million in annualized incremental revenues. On May 1, 2019, interim rates under bond and subject to refund were implemented and will remain in effect until a final decision is received on this general rate case filing.

There is no assurance that all or any portion of these requests will be granted.

### Pending Infrastructure Surcharge Filings

Presented in the table below are our pending infrastructure surcharge filings:

(In millions)	Date Filed	Amount
Pending infrastructure surcharge filings by state:		
West Virginia	June 28, 2019	\$ 4
New York	May 30, 2019	2
Tennessee	November 16, 2018	2
<b>Total pending infrastructure surcharge filings</b>		<b>\$ 8</b>

There is no assurance that all or any portion of these requests will be granted.

## **Tax Matters**

### ***Tax Cuts and Jobs Act***

On December 22, 2017, the TCJA was signed into law, which, among other things, enacted significant and complex changes to the Internal Revenue Code of 1986, including a reduction in the federal corporate income tax rate from 35% to 21% as of January 1, 2018, and certain other provisions related specifically to the public utility industry, including continuation of interest expense deductibility, the exclusion from utilizing bonus depreciation and the normalization of deferred income taxes. In 2018, the Company's 14 regulatory jurisdictions began to consider the impacts of the TCJA. The Company has adjusted customer rates to reflect the lower income tax rate in 10 states. In one of those 10 states, a portion of the tax savings is being used to reduce certain regulatory assets. In one additional state, we are using the tax savings to offset additional capital investment and to reduce a regulatory asset. Proceedings in the other three regulatory jurisdictions remain pending.

The enactment of the TCJA required a re-measurement of our deferred income taxes that materially impacted our 2017 results of operations and financial position. The portion of this re-measurement related to our Regulated Businesses was substantially offset by a regulatory liability, as we believe it is probable that the excess accumulated deferred income taxes ("EADIT") created by the TCJA will be used to benefit our regulated customers in future rates. The Company is amortizing EADIT and crediting customers in three states, including one state where the EADIT is being used to offset future infrastructure investments. Amortization of EADIT will begin in three additional states during the third quarter of 2019. In the eight remaining regulated jurisdictions, we expect the timing of the amortization of EADIT credits to be addressed in pending or future rate cases or other proceedings.

On March 23, 2018, President Trump signed the Consolidated Appropriations Act of 2018 (the "CAA"). The CAA corrects and clarifies some aspects of the TCJA related to bonus depreciation eligibility. Specifically, property that was either acquired, or as to which construction began prior to September 27, 2017, is eligible for bonus depreciation. The Company had a federal NOL carryover balance as of December 31, 2018 that is not expected to be fully utilized until 2020, which is when the Company expects that it will become a cash taxpayer for federal income tax purposes.

## **Legislative Updates**

During 2019, our regulatory jurisdictions enacted the following legislation that has been approved and is effective as of July 31, 2019 :

- In Illinois, the Governor signed a 10-year extension of the System's Viability Act, Illinois' fair market value legislation. In addition to extending the Act, the updated law removes the previous size restriction and allows all municipalities to take advantage of the benefits of the program.
- Indiana Senate Enrolled Act 472 allows non-municipal utilities to benefit from full appraisal recovery of their assets in a sale.
- Indiana House Enrolled Act 1406 established the first state appropriation for water infrastructure investment at \$20 million per year.
- Indiana Senate Enrolled Act 4 extends leveling legislation to require biannual water loss audits and establishes the state revolving fund administrator as the central coordinator for water issues in the state.

During 2019, our regulatory jurisdictions enacted the following legislation that has been approved but is not yet effective as of July 31, 2019 :

- In Pennsylvania, House Bill 751, now Act 53 of 2019, was passed and allows water and wastewater utilities responsible for funding the income taxes on taxable contributions and advances to record the income taxes paid in accumulated deferred income taxes for accounting and ratemaking purposes.
- In West Virginia, House Bill 117 was passed and allows qualified low income customers to apply for a 20% discount on their wastewater bill.

## **Condemnation and Eminent Domain**

All or portions of our Regulated Businesses' utility assets could be acquired by state, municipal or other government entities through one or more of the following methods: (i) eminent domain (also known as condemnation); (ii) the right of purchase given or reserved by a municipality or political subdivision when the original certificate of public convenience and necessity ("CPCN") was granted; and (iii) the right of purchase given or reserved under the law of the state in which the utility subsidiary was incorporated or from which it received its CPCN. The acquisition consideration related to such a proceeding initiated by a local government may be determined consistent with applicable eminent domain law, or may be negotiated or fixed by appraisers as prescribed by the law of the state or in the particular CPCN.

As such, we are periodically subject to condemnation proceedings in the ordinary course of business. For example, a citizens group in Monterey, California successfully added “Measure J” to the November 6, 2018 election ballot asking voters to decide whether the Monterey Peninsula Water Management District (the “MPWMD”) should conduct a feasibility study concerning the potential purchase of our California subsidiary’s Monterey water service assets, and, if feasible, to proceed with a purchase of those assets without an additional public vote. This service territory represents approximately 40,000 customers. On November 27, 2018, Measure J was certified to have passed. The MPWMD has until August 27, 2019 to complete a feasibility study and submit to its board a written plan for acquiring the system assets. If the MPWMD were to determine that such an acquisition is feasible, then the MPWMD would commence a multi-year eminent domain proceeding against our California subsidiary to first establish the MPWMD’s right to take the system assets and, if such right is established, determine the amount of just compensation to be paid for the system assets.

Also, five municipalities in the Chicago, Illinois area (approximately 30,300 customers in total) formed a water agency and filed an eminent domain lawsuit against our Illinois subsidiary in January 2013, seeking to condemn the water pipeline that serves those five municipalities. Before filing its eminent domain lawsuit, the water agency made an offer of \$38 million for the pipeline. A jury trial will take place to establish the value of the pipeline. The parties have filed with the court updated valuation reports. Although the date of the valuation trial has not currently been scheduled, it is not likely to commence before the first quarter of 2020.

Furthermore, the law in certain jurisdictions in which our Regulated Businesses operate provides for eminent domain rights allowing private property owners to file a lawsuit to seek just compensation against a public utility, if a public utility’s infrastructure has been determined to be a substantial cause of damage to that property. In these actions, the plaintiff would not have to prove that the public utility acted negligently. In California, most recently, lawsuits have been filed in connection with large-scale natural events such as wildfires. Some have included allegations that infrastructure of certain utilities triggered the natural event that resulted in damage to the property. In some cases, the PUC has allowed certain costs or losses incurred by the utility to be recovered from customers in rates, but in other cases such recovery in rates has been disallowed. Also, the utility may have obtained insurance that could respond to some or all of such losses, although the utility would be at risk for any losses not ultimately subject to rate or insurance recovery or losses that exceed the limits of such insurance.

## Consolidated Results of Operations

Presented in the table below are our consolidated results of operations:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,				
	2019	2018	Increase (Decrease)		2019	2018	Increase (Decrease)		
<b>(Dollars in millions)</b>									
Operating revenues	\$ 882	\$ 853	\$ 29	3.4 %	\$ 1,695	\$ 1,614	\$ 81	5.0%	
Operating expenses:									
Operation and maintenance	372	348	24		737	695	42		
Depreciation and amortization	142	134	8		286	263	23		
General taxes	72	69	3		141	139	2		
(Gain) on asset dispositions and purchases	(6)	—	(6)		(9)	(2)	(7)		
Total operating expenses, net	580	551	29	5.3 %	1,155	1,095	60	5.5%	
Operating income	302	302	—		540	519	21		
Other income (expense):									
Interest, net	(94)	(86)	(8)		(187)	(170)	(17)		
Non-operating benefit costs, net	4	2	2		8	5	3		
Other, net	15	4	11		18	8	10		
Total other income (expense)	(75)	(80)	5	(6.3)%	(161)	(157)	(4)	2.5%	
Income before income taxes	227	222	5		379	362	17		
Provision for income taxes	57	60	(3)		96	94	2		
Net income attributable to common shareholders	\$ 170	\$ 162	\$ 8	4.9 %	\$ 283	\$ 268	\$ 15	5.6%	

The main factors contributing to the increases in net income attributable to common stockholders for the three and six months ended June 30, 2019 are described in “Segment Results of Operations” below. Additionally, during the second quarter of 2019, there was an increase at parent company from the sale of a legacy investment, partially offset by higher interest expense supporting growth in the business.

## Segment Results of Operations

Our operating segments are comprised of the revenue-generating components of the business for which separate financial information is internally produced and regularly used by management to make operating decisions, assess performance and allocate resources. The Company operates its business primarily through one reportable segment, the Regulated Businesses segment. We also operate several market-based businesses within operating segments that individually do not meet the criteria of a reportable segment in accordance with GAAP. These non-reportable operating segments are collectively presented as our Market-Based Businesses, which is consistent with how management assesses the results of these businesses.

## Regulated Businesses Segment

Presented in the table below is financial information for our Regulated Businesses :

	For the Three Months Ended June 30,				For the Six Months Ended June 30,				
	2019	2018	Increase (Decrease)		2019	2018	Increase (Decrease)		
<b>(Dollars in millions)</b>									
Operating revenues	\$ 755	\$ 744	\$ 11	1.5 %	\$ 1,440	\$ 1,410	\$ 30	2.1 %	
Operation and maintenance	287	264	23	8.7 %	565	542	23	4.2 %	
Depreciation and amortization	132	123	9		262	245	17		
General taxes	67	66	1		131	131	—		
(Gain) on asset dispositions and purchases	(6)	(1)	(5)		(8)	(3)	(5)		
Other income (expenses)	(67)	(64)	(3)		(132)	(127)	(5)		
Provision for income taxes	52	59	(7)		92	97	(5)		
Net income attributable to common shareholders	156	167	(11)	(6.6)%	266	271	(5)	(1.8)%	

## Operating Revenues

Presented in the tables below is information regarding the main components of our Regulated Businesses’ operating revenues, with explanations for material variances provided in the ensuing discussions:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,				
	2019	2018	Increase (Decrease)		2019	2018	Increase (Decrease)		
<b>(Dollars in millions)</b>									
<b>Water services:</b>									
Residential	\$ 415	\$ 410	\$ 5	1.2 %	\$ 793	\$ 778	\$ 15	1.9 %	
Commercial	153	152	1	0.7 %	289	285	4	1.4 %	
Fire service	35	34	1	2.9 %	69	67	2	3.0 %	
Industrial	34	34	—	— %	66	65	1	1.5 %	
Public and other	68	62	6	9.7 %	120	112	8	7.1 %	
Total water services	705	692	13	1.9 %	1,337	1,307	30	2.3 %	
Wastewater services	40	38	2	5.3 %	80	76	4	5.3 %	
Other (a)	10	14	(4)	(28.6)%	23	27	(4)	(14.8)%	
Total operating revenues	\$ 755	\$ 744	\$ 11	1.5 %	\$ 1,440	\$ 1,410	\$ 30	2.1 %	

(a) Includes other operating revenues consisting primarily of miscellaneous utility charges, fees and rents.

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2019	2018	Increase (Decrease)		2019	2018	Increase (Decrease)	
<b>(Gallons in millions)</b>								
Billed water services volumes:								
Residential	39,106	40,783	(1,677)	(4.1)%	74,873	78,238	(3,365)	(4.3)%
Commercial	19,197	19,767	(570)	(2.9)%	36,633	37,514	(881)	(2.3)%
Industrial	9,164	9,198	(34)	(0.4)%	17,809	18,895	(1,086)	(5.7)%
Fire service, public and other	12,119	12,343	(224)	(1.8)%	23,210	23,923	(713)	(3.0)%
Billed water services volumes	<u>79,586</u>	<u>82,091</u>	<u>(2,505)</u>	<u>(3.1)%</u>	<u>152,525</u>	<u>158,570</u>	<u>(6,045)</u>	<u>(3.8)%</u>

For the three months ended June 30, 2019 , operating revenues increase d \$11 million , primarily due to a:

- \$30 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; partially offset by a
- \$19 million decrease from lower water services demand, including \$13 million driven by unusually wet weather conditions experienced in the Northeast and Midwest during the second quarter of 2019, and ongoing customer usage reductions from conservation.

For the six months ended June 30, 2019 , operating revenues increase d \$30 million , primarily due to a:

- \$60 million increase from authorized rate increases, including infrastructure surcharges, principally to fund infrastructure investment in various states; and a
- \$6 million increase from water and wastewater acquisitions, as well as organic growth in existing systems; partially offset by a
- \$28 million decrease from lower water services demand, including \$13 million driven by unusually wet weather conditions experienced in the Northeast and Midwest during the second quarter of 2019, and ongoing customer usage reductions from conservation; and a
- \$6 million decrease resulting from our Missouri subsidiary's 2018 general rate case decision authorizing the adjustment of customer rates, effective May 28, 2018, to reflect the income tax savings resulting from the TCJA.

### Operation and Maintenance

Presented in the table below is information regarding the main components of our Regulated Businesses ' operating and maintenance expense, with explanations for material variances provided in the ensuing discussions:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2019	2018	Increase (Decrease)		2019	2018	Increase (Decrease)	
<b>(Dollars in millions)</b>								
Production costs	\$ 75	\$ 77	\$ (2)		\$ 144	\$ 146	\$ (2)	
Employee-related costs	115	110	5		232	227	5	
Operating supplies and services	56	53	3		111	101	10	
Maintenance materials and supplies	18	17	1		37	39	(2)	
Customer billing and accounting	13	16	(3)		24	26	(2)	
Other	10	(9)	19		17	3	14	
Total	<u>\$ 287</u>	<u>\$ 264</u>	<u>\$ 23</u>	8.7%	<u>\$ 565</u>	<u>\$ 542</u>	<u>\$ 23</u>	4.2%

For the three months ended June 30, 2019 , operation and maintenance expense increase d \$23 million , primarily due to a:

- \$19 million increase in other operation and maintenance expense principally due to a \$20 million benefit recorded in the second quarter of 2018, resulting from an insurance settlement related to the Freedom Industries chemical spill in West Virginia; and a
- \$5 million increase in employee-related costs from higher headcount and related compensation expense supporting growth in the businesses; partially offset by a



- \$3 million decrease in customer billing and accounting from a decrease in customer uncollectible expense, primarily in our Pennsylvania and Missouri subsidiaries.

For the six months ended June 30, 2019, operation and maintenance expense increased \$23 million, primarily due to a:

- \$14 million increase in other operation and maintenance expense principally due to a \$20 million insurance settlement benefit recorded in the second quarter of 2018, as discussed above, offset in part by a \$4 million reduction to the liability related to the Freedom Industries chemical spill, recorded in the first quarter of 2019 (see Note 9—Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information); a
- \$10 million increase in operating supplies and services from higher costs for temporary workers for technology support services, as well as an increase in other operating expenses; and a
- \$5 million increase in employee-related costs from higher headcount and related compensation expense supporting growth in the businesses; partially offset by a
- \$6 million combined decrease in production costs, customer billing and accounting and maintenance materials and supplies largely from lower purchased water usage in our California subsidiary, lower customer uncollectible expense, and a higher volume of main breaks and paving expense driven by the colder weather experienced in the first quarter of 2018.

### ***Depreciation and Amortization***

For the three and six months ended June 30, 2019, depreciation and amortization increased \$9 million and \$17 million, respectively, primarily due to additional utility plant placed in service.

### ***(Gain) on Asset Dispositions and Purchases***

For the three and six months ended June 30, 2019, (gain) on asset dispositions and purchases increased \$5 million, primarily due to a \$6 million gain recognized on a land sale in our Pennsylvania subsidiary.

### ***Other Income (Expenses)***

For the three and six months ended June 30, 2019, other income (expenses) increased \$3 million and \$5 million, respectively, primarily due to an increase in interest expense from the issuance of incremental long-term debt in the second quarter of 2019 and the third quarter of 2018, supporting growth in the business.

### ***Provision for Income Taxes***

For the three and six months ended June 30, 2019, our provision for income taxes decreased \$7 million and \$5 million, respectively, primarily due to the benefit from amortization of EADIT resulting from the TCJA, which began for three of our regulated subsidiaries in 2019, and unitary state adjustments and other deductions under the TCJA recorded in 2018.

### **Market-Based Businesses**

Presented in the table below is information for our Market-Based Businesses, with explanations for material variances provided in the ensuing discussions:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2019	2018	Increase (Decrease)		2019	2018	Increase (Decrease)	
<b>(Dollars in millions)</b>								
Operating revenues	\$ 132	\$ 114	\$ 18	15.8%	\$ 266	\$ 214	\$ 52	24.3%
Operation and maintenance	96	89	7	7.9%	194	169	25	14.8%
Depreciation and amortization	8	7	1		17	11	6	
Provision for income taxes	8	5	3		15	9	6	
Net income attributable to common shareholders	21	13	8	61.5%	41	25	16	64.0%

### ***Operating Revenues***

For the three months ended June 30, 2019 , operating revenues increase d \$18 million , primarily due to a:

- \$30 million increase in our Homeowner Services Group from contract growth, including \$28 million from the acquisition of Pivotal in the second quarter of 2018; and a
- \$2 million increase in our Military Services Group from the addition of two new contracts in 2018 (Wright-Patterson Air Force Base and Fort Leonard Wood); partially offset by an
- \$8 million decrease in Keystone from the exit of the construction business in the third quarter of 2018; and a
- \$7 million decrease in our Contract Services Group from the sale of the majority of our O&M contracts in the third quarter of 2018.

For the six months ended June 30, 2019 , operating revenues increase d \$52 million , primarily due to a:

- \$65 million increase in our Homeowner Services Group from contract growth, including \$59 million from the acquisition of Pivotal in the second quarter of 2018; and a
- \$7 million increase in our Military Services Group from the addition of two new contracts in 2018, as discussed above, offset in part by lower capital upgrades at Fort Meade as a result of the completion of a large project in the fourth quarter of 2018; partially offset by a
- \$13 million decrease in our Contract Services Group from the sale of the majority of our O&M contracts in the third quarter of 2018; and an
- \$8 million decrease in Keystone from the exit of the construction business in the third quarter of 2018.

### ***Operation and Maintenance***

For the three months ended June 30, 2019 , operation and maintenance expense increase d \$7 million , primarily due to an:

- \$18 million increase in our Homeowner Services Group from the acquisition of Pivotal in the second quarter of 2018, as well as contract growth and increased claims expense; partially offset by an
- \$8 million decrease in Keystone from the exit of the construction business in the third quarter of 2018; and a
- \$6 million decrease in our Contract Services Group from the sale of the majority of our O&M contracts in the third quarter of 2018.

For the six months ended June 30, 2019 , operation and maintenance expense increase d \$25 million , primarily due to a:

- \$40 million increase in our Homeowner Services Group from the acquisition of Pivotal in the second quarter of 2018, as well as contract growth and increased claims expense; and a
- \$3 million increase in our Military Services Group from the addition of two new military contracts in 2018, as discussed above; partially offset by a
- \$14 million decrease in our Contract Services Group from the sale of the majority of our O&M contracts in the third quarter of 2018; and an
- \$8 million decrease in Keystone from the exit of the construction business in the third quarter of 2018.

### ***Depreciation and Amortization***

For the three and six months ended June 30, 2019 , depreciation and amortization increased \$1 million and \$6 million , respectively, primarily due to the addition of property, plant and equipment and intangible assets from the acquisition of Pivotal in the second quarter of 2018.

### ***Provision for Income Taxes***

For the three and six months ended June 30, 2019 , our provision for income taxes increased \$3 million and \$6 million , respectively, primarily due to higher pretax income in the first half of 2019, largely from the acquisition of Pivotal in the second quarter of 2018.

### **Liquidity and Capital Resources**

For a general overview of our sources and uses of capital resources, see the introductory discussion in Part II, Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources in our Form 10-K.

We fund liquidity needs for capital investment, working capital and other financial commitments through cash flows from operations, public and private debt offerings, commercial paper markets and, if and to the extent necessary, borrowings under the AWCC revolving credit facility. The revolving credit facility provides \$2.25 billion in aggregate total commitments from a diversified group of financial institutions. On April 9, 2019, the termination date of the credit agreement with respect to AWCC's revolving credit facility was extended, pursuant to the terms of the credit agreement, from March 21, 2023 to March 21, 2024. The facility is used principally to support AWCC's commercial paper program and to provide a sublimit of up to \$150 million for letters of credit. Subject to satisfying certain conditions, the credit agreement also permits AWCC to increase the maximum commitment under the facility by up to an aggregate of \$500 million, and to request up to two extensions of its expiration date each for up to a one-year period, as to which one such extension request remains. As of June 30, 2019, AWCC had no outstanding borrowings and \$80 million of outstanding letters of credit under the revolving credit facility, with \$2.17 billion available to fulfill short-term liquidity needs and to issue letters of credit. We regularly evaluate the capital markets and closely monitor the financial condition of the financial institutions with contractual commitments in our revolving credit facility.

In order to meet short-term liquidity needs, AWCC issues commercial paper that is supported by its revolving credit facility. The maximum aggregate principal amount of short-term borrowings authorized for issuance under AWCC's commercial paper program is \$2.10 billion. As of June 30, 2019, the revolving credit facility supported \$397 million in outstanding commercial paper. We believe that our ability to access the capital markets, the revolving credit facility and our cash flows from operations will generate sufficient cash to fund our short-term requirements. However, we can provide no assurances that the lenders will meet their existing commitments to AWCC under the revolving credit facility, or that we will be able to access the commercial paper or loan markets in the future on terms acceptable to us or at all.

On May 13, 2019, AWCC completed a \$1.10 billion debt offering which included the sale of \$550 million aggregate principal amount of its 3.45% Senior Notes due 2029 and \$550 million aggregate principal amount of its 4.15% Senior Notes due 2049. At the closing of the offering, AWCC received, after deduction of underwriting discounts and before deduction of offering expenses, net proceeds of approximately \$1.09 billion. AWCC used the net proceeds to: (i) lend funds to parent company and its regulated subsidiaries; (ii) repay \$25 million principal amount of AWCC's 7.21% Series I Senior Notes at maturity on May 19, 2019; (iii) repay \$26 million aggregate principal amount of subsidiary debt at maturity during the second quarter of 2019; and (iv) repay AWCC's commercial paper obligations, and for general corporate purposes.

On May 6, 2019, the Company terminated five forward starting swap agreements with an aggregate notional amount of \$510 million, realizing a net loss of \$30 million, to be amortized through interest, net over 10 and 30 year periods, in accordance with the terms of the new debt issued on May 13, 2019.

### **Cash Flows Provided by Operating Activities**

Cash flows provided by operating activities primarily result from the sale of water and wastewater services and, due to the seasonality of demand, are generally greater during the warmer months. Presented in the table below is a summary of the major items affecting our cash flows provided by operating activities:

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>(In millions)</b>		
Net income	\$ 283	\$ 268
Add (less):		
Depreciation and amortization	286	263
Deferred income taxes and amortization of investment tax credits	85	82
Other non-cash activities (a)	(36)	24
Changes in working capital (b)	(94)	(112)
Settlement of cash flow hedges	(30)	—
Pension and postretirement healthcare contributions	(14)	—
<b>Net cash flows provided by operations</b>	<b>\$ 480</b>	<b>\$ 525</b>

(a) Includes provision for losses on accounts receivable, (gain) on asset dispositions and purchases, pension and non-pension postretirement benefits and other non-cash, net. Details of each component can be found on the Consolidated Statements of Cash Flows.

(b) Changes in working capital include changes to receivables and unbilled revenues, accounts payable and accrued liabilities, and other current assets and liabilities, net, less the settlement of cash flow hedges.

For the six months ended June 30, 2019, cash flows provided by operating activities decreased \$45 million, primarily due to the settlement of cash flow hedges on May 6, 2019 in connection with the Company's \$1.10 billion debt offering that closed on May 13, 2019, an increase in pension healthcare contributions, and changes in other non-cash activities, including activity in regulatory balancing accounts, primarily in our California subsidiary. Partially offsetting these decreases was an increase in net income. The main factors contributing to the increase in net income are described in "Consolidated Results of Operations" and "Segment Results of Operations" above.

**Cash Flows Used in Investing Activities**

Presented in the table below is a summary of the major items affecting our cash flows used in investing activities:

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>(In millions)</b>		
Net capital expenditures	\$ (712)	\$ (739)
Acquisitions	(80)	(377)
Other investing activities, net (a)	(25)	(33)
Net cash flows used in investing activities	<u>\$ (817)</u>	<u>\$ (1,149)</u>

(a) Includes removal costs from property, plant and equipment retirements and proceeds from sale of assets.

For the six months ended June 30, 2019, cash used in investing activities decreased \$332 million, primarily due to the acquisition of Pivotal for \$363 million on June 4, 2018, and the timing of payments for capital expenditures. For the full year of 2019, our capital investments, including acquisitions, are expected to be in the range of \$1.8 billion to \$1.9 billion.

**Cash Flows Provided by Financing Activities**

Presented in the table below is a summary of the major items affecting our cash flows provided by financing activities:

	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>(In millions)</b>		
Proceeds from long-term debt	\$ 1,184	\$ 15
Repayments of long-term debt	(146)	(119)
Net proceeds from short-term borrowings	(568)	746
Proceeds from issuance of common stock	—	183
Dividends paid	(173)	(155)
Anti-dilutive stock repurchases	(36)	(45)
Other financing activities, net (a)	4	13
Net cash flows provided by financing activities	<u>\$ 265</u>	<u>\$ 638</u>

(a) Includes proceeds from issuances of common stock under various employee stock plans and our dividend reinvestment plan, net of taxes paid, advances and contributions for construction, net of refunds, and debt issuance costs.

For the six months ended June 30, 2019, cash flows provided by financing activities decreased \$373 million, primarily due to the issuance of common stock in 2018, the proceeds of which were used to finance a portion of the 2018 acquisition of Pivotal, as well as an increase in cash used for dividend payments in 2019. AWCC issued \$1.10 billion of long-term debt as part of its May 13, 2019 debt offering, of which \$51 million of the net proceeds was used to repay long-term debt obligations at maturity. Net proceeds from the debt offering were also used to repay pre-existing short-term borrowings, which resulted in a net cash outflow for the six months ended June 30, 2019 of \$568 million.

**Credit Facilities and Short-Term Debt**

Presented in the table below is the aggregate revolving credit facility commitments, the letter of credit sublimit under the revolving credit facility and the commercial paper limit, as well as the available capacity for each as of June 30, 2019 :

	Credit Facility Commitments (a)	Available Credit Facility Capacity (a)	Letter of Credit Sublimit	Available Letter of Credit Capacity	Commercial Paper Limit	Available Commercial Paper Capacity
<b>(In millions)</b>						
June 30, 2019	\$ 2,262	\$ 2,181	\$ 150	\$ 70	\$ 2,100	\$ 1,703

(a) Includes amounts related to the revolving credit facility for Keystone. As of June 30, 2019 , the total commitment under the Keystone revolving credit facility was \$12 million , of which \$11 million was available for borrowing, subject to compliance with a collateral base calculation.

The weighted-average interest rate on AWCC short-term borrowings was approximately 2.74% and 2.34% for the three months ended June 30, 2019 and 2018 , respectively, and approximately 2.79% and 2.15% for the six months ended June 30, 2019 and 2018 , respectively.

**Debt Covenants**

Our debt agreements contain financial and non-financial covenants. To the extent that we are not in compliance with these covenants, an event of default may occur under one or more debt agreements and we or our subsidiaries may be restricted in our ability to pay dividends, issue new debt or access our revolving credit facility. Our long-term debt indentures contain a number of covenants that, among other things, prohibit or restrict the Company from issuing debt secured by the Company’s assets, subject to certain exceptions. Our failure to comply with any of these covenants could accelerate repayment obligations.

Covenants in certain long-term notes and the revolving credit facility require us to maintain a ratio of consolidated debt to consolidated capitalization (as defined in the relevant documents) of not more than 0.70 to 1.00. On June 30, 2019 , our ratio was 0.60 to 1.00, and therefore we were in compliance with the covenants.

**Security Ratings**

Our access to the capital markets, including the commercial paper market, and respective financing costs in those markets, may be directly affected by our securities ratings. We primarily access the debt capital markets, including the commercial paper market, through AWCC. However, we have also issued debt through our regulated subsidiaries, primarily in the form of tax exempt securities or borrowings under state revolving funds, to lower our overall cost of debt.

Presented in the table below are long-term and short-term credit ratings and rating outlooks as of July 31, 2019 as issued by the following rating agencies:

Securities	Moody's Investors Service	Standard & Poor's Ratings Service
Rating outlook	Stable	Stable
Senior unsecured debt	Baa1	A
Commercial paper	P-2	A-1

On June 7, 2019, Standard & Poor’s Ratings Service affirmed the Company’s long-term ‘A’ and short-term ‘A-1’ credit ratings, with a stable outlook.

On April 1, 2019, Moody’s Investors Service changed the Company’s senior unsecured debt rating to Baa1, from A3, with a stable outlook. The Company’s commercial paper rating remained unchanged.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency, and each rating should be evaluated independently of any other rating. Security ratings are highly dependent upon our ability to generate cash flows in an amount sufficient to service our debt and meet our investment plans. We can provide no assurances that our ability to generate cash flows is sufficient to maintain our existing ratings. None of our borrowings are subject to default or prepayment as a result of the downgrading of these security ratings, although such a downgrading could increase fees and interest charges under our credit facility.

## [Table of Contents](#)

As part of the normal course of business, we routinely enter into contracts for the purchase and sale of water, energy, chemicals and other services. These contracts either contain express provisions or otherwise permit us and our counterparties to demand adequate assurance of future performance when there are reasonable grounds for doing so. In accordance with the contracts and applicable contract law, if we are downgraded by a credit rating agency, especially if such downgrade is to a level below investment grade, it is possible that a counterparty would attempt to rely on such a downgrade as a basis for making a demand for adequate assurance of future performance, which could include a demand that we provide collateral to secure our obligations. We do not expect to post any collateral which will have a material adverse impact on the Company's results of operations, financial position or cash flows.

### ***Dividends***

For discussion of our dividends, see Note 5—Shareholders' Equity in the Notes to Consolidated Financial Statements for additional information.

### ***Application of Critical Accounting Policies and Estimates***

Our financial condition, results of operations and cash flows are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. See Part II, Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates in our Form 10-K for a discussion of our critical accounting policies. Additionally, see Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for updates to our significant accounting policies previously disclosed in our Form 10-K.

### ***Recent Accounting Standards***

See Note 2—Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of new accounting standards recently adopted or pending adoption.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk in the normal course of business, including changes in commodity prices, equity prices and interest rates. For further discussion of our exposure to market risk, see Part II, Item 7A—Quantitative and Qualitative Disclosures about Market Risk in our Form 10-K. Except as described below, there have been no significant changes to our exposure to market risk since December 31, 2018.

On May 6, 2019, we terminated five forward starting swap agreements with an aggregate notional amount of \$510 million, and, as a result, we have no significant derivative instruments outstanding as of June 30, 2019.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

American Water maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, including the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2019.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2019, our disclosure controls and procedures were effective at a reasonable level of assurance.

### **Changes in Internal Control over Financial Reporting**

On June 4, 2018, the Company completed the acquisition of Pivotal. See Note 4—Acquisitions and Divestitures in the Notes to Consolidated Financial Statements in our Form 10-K for additional information. During the second quarter of 2019, we completed the integration of Pivotal into our internal control over financial reporting structure and concluded that there have been no changes in internal control over financial reporting that occurred during the three months ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The following information updates and amends the information provided in our Form 10-K in Part I, Item 3—Legal Proceedings, and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 in Part II, Item 1—Legal Proceedings. Capitalized terms used but not otherwise defined herein have the meanings set forth in our Form 10-K.

**Alternative Water Supply in Lieu of Carmel River Diversions**

***Compliance with SWRCB Orders to Reduce Carmel River Diversions***

On May 30, 2019, Cal Am met again with MPWMD and the SWRCB to discuss the conflicting regulatory interpretations regarding the calculation of a baseline to determine increases in use of water at existing service addresses. The SWRCB has agreed to circulate a proposed new interpretation, which would be subject to public review and comment.

***Regional Desalination Project Litigation***

***Cal Am's Action for Damages Following RDP Termination***

On January 22, 2019, RMC filed a motion for judgment on the pleadings against Cal Am. On February 25, 2019, the court granted RMC's motion as to certain of Cal Am's tort claims. On April 8, 2019, Cal Am filed a writ petition with the California Court of Appeal challenging the trial court's ruling, which was denied on May 29, 2019.

On March 1, 2019, MCWD filed a motion for summary judgment against Cal Am relating to Cal Am's tort claims against it. On June 20, 2019, the court granted MCWD's motion. On July 22, 2019, Cal Am filed a writ petition with the California Court of Appeal challenging this ruling.

The trial date for this matter is currently January 6, 2020.

***Monterey Peninsula Water Supply Project***

***CPUC Final Approval of Water Supply Project***

On July 2, 2019, Cal Am notified MPWMD and Monterey One Water (formerly the Monterey Regional Water Pollution Control Agency) (collectively, the "Agencies") that an event of default occurred under the water purchase agreement for the GWR Project because the Agencies failed to deliver to Cal Am by July 1, 2019 advanced treated recycled water produced by the GWR Project. Under the water purchase agreement, upon the occurrence of this event of default, Cal Am had the right to terminate the water purchase agreement immediately. Cal Am has elected not to exercise its right to terminate the water purchase agreement at this time, but in its notification to the Agencies, Cal Am expressly reserved its right to terminate the water purchase agreement until such time as the Agencies commence their required delivery of water from the GWR Project. On July 16, 2019, MPWMD and Monterey One Water responded to Cal Am's event of default notice and estimated that water delivery would begin by mid-October.

On April 17, 2019, Water Ratepayers Association of the Monterey Peninsula ("WRAMP"), a citizens' advocacy group, filed an amended complaint in Monterey County Superior Court asserting a "qui tam" claim under the California False Claims Act on behalf of itself and the State of California against Cal Am and certain environmental consultants who worked on the CPUC's environmental analysis of the MPWSP. WRAMP claims that the consultants submitted false data in connection with modeling of potential groundwater impacts from the MPWSP, and that Cal Am had allegedly supported those efforts. The State Attorney General declined to proceed with this action after it was originally filed in 2016. On July 10, 2019, defendants filed a joint demurrer challenging the legal sufficiency of the allegations of the amended complaint. A hearing on the demurrer is scheduled for August 27, 2019.

***Coastal Development Permit Application***

On March 7, 2019, the City of Marina Planning Commission adopted a resolution denying Cal Am's coastal development permit application. Cal Am appealed the Marina Planning Commission's decision to the City Council, which set a public hearing on the appeal for April 30, 2019. On April 25, 2019, Cal Am submitted a letter to the City challenging the impartiality of the City and three of its council members with respect to the Water Supply Project. On April 29, 2019, the City informed Cal Am that it intended to proceed with the hearing with the participation of the challenged City Council members. As a result, on April 29, 2019, Cal Am notified the City that it was withdrawing its appeal, as Cal Am believes it could not receive a fair and impartial hearing before the City Council.

## [Table of Contents](#)

On May 10, 2019, the City issued a notice of final local action based upon the Marina Planning Commission's decision. On May 22, 2019, Cal Am appealed this decision to the Coastal Commission, as permitted under the City's code and the California Coastal Act. On June 11, 2019, the City challenged the appealability of the Marina Planning Commission's decision. Appeals of this decision were also filed by two third parties, and three members of the Coastal Commission each independently initiated appeals of the Marina Planning Commission's decision. On July 11, 2019, the Coastal Commission held a hearing on the issue of appealability and determined that the Marina Planning Commission's decision was appealable to the Coastal Commission and that the appeals filed were valid.

### *Test Slant Well Permitting*

On June 28, 2019, the California Court of Appeal dismissed MCWD's January 2018 appeal that had challenged the amendment by the Coastal Commission of Cal Am's coastal development permits for its test slant well. On July 15, 2019, MCWD filed a petition for rehearing with the Court of Appeal, which was denied on July 19, 2019.

### *Desalination Plant Development Permit*

On April 24, 2019, the Monterey County Planning Commission approved Cal Am's application for a combined development permit for construction of the desalination plant in unincorporated Monterey County. MCWD and a public advocacy group appealed the Monterey County Planning Commission's decision to the County Board of Supervisors. On July 15, 2019, the County Board of Supervisors denied the appeals and upheld the Monterey County Planning Commission's approval.

\* \* \*

Based on the foregoing, Cal Am estimates that the earliest date by which the Water Supply Project desalination plant could be completed is sometime in 2021. There can be no assurance that the Water Supply Project will be completed on a timely basis, if ever. Furthermore, there can be no assurance that Cal Am will be able to comply with the diversion reduction requirements and other remaining requirements under the 2009 Order and the 2016 Order, or that any such compliance will not result in material additional costs or obligations to Cal Am or the Company.

### **Dunbar, West Virginia Water Main Break Class Action Litigation**

The court requested that the parties submit a scheduling order with a trial date of August 26, 2019. The parties by agreement proposed to the court an agreed-upon scheduling order with a June 2020 trial date. The court did not enter the order because the trial date is not available, so setting a new trial date and schedule remains pending. Discovery in this case is ongoing.

### **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A—Risk Factors in our Form 10-K, and in our other public filings, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors previously disclosed in Part I, Item 1A—Risk Factors in our Form 10-K.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In February 2015, the Board of Directors authorized an anti-dilutive stock repurchase program to mitigate the dilutive effect of shares issued through the Company's dividend reinvestment, employee stock purchase and executive compensation activities. The program allows the Company to purchase up to 10 million shares of its outstanding common stock over an unrestricted period of time in the open market or through privately negotiated transactions. The program is conducted in accordance with Rule 10b-18 of the Exchange Act, and, to facilitate these repurchases, the Company enters into Rule 10b5-1 stock repurchase plans with a third-party broker, which allow the Company to repurchase shares of its common stock at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. Subject to applicable regulations, the Company may elect to amend or cancel the program or the stock repurchase parameters at its discretion to manage dilution.

The Company did not repurchase shares of common stock during the three months ended June 30, 2019. From April 1, 2015, the date repurchases under the anti-dilutive stock repurchase program commenced, through June 30, 2019, the Company repurchased an aggregate of 4,860,000 shares of common stock under the program, leaving an aggregate of 5,140,000 shares available for repurchase under this program.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.



**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
3.1	<a href="#">Restated Certificate of Incorporation of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed November 6, 2008).</a>
3.2	<a href="#">Amended and Restated Bylaws of American Water Works Company, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q, File No. 001-34028, filed August 5, 2015).</a>
4.1	<a href="#">Officers' Certificate of American Water Capital Corp., dated May 13, 2019, establishing the terms and authorizing the issuance of its 3.450% Senior Notes due 2029 (incorporated by reference to Exhibit 4.1 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed on May 13, 2019).</a>
4.2	<a href="#">Officers' Certificate of American Water Capital Corp., dated May 13, 2019, establishing the terms and authorizing the issuance of its 4.150% Senior Notes due 2049 (incorporated by reference to Exhibit 4.2 to American Water Works Company, Inc.'s Current Report on Form 8-K, File No. 001-34028, filed on May 13, 2019).</a>
*10.1	<a href="#">Offer Letter for Employment, dated May 1, 2019, between American Water Works Company, Inc. and M. Susan Hardwick.</a>
*10.2	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2019 Restricted Stock Unit Grant (for M. Susan Hardwick).</a>
*10.3	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2019 Performance Stock Unit Grant Form A (for M. Susan Hardwick).</a>
*10.4	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2019 Performance Stock Unit Grant Form B (for M. Susan Hardwick).</a>
*10.5	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2019 Restricted Stock Unit Grant (for Brian Chin).</a>
*10.6	<a href="#">American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan 2019 Stock Unit Grant Form for Non-Employee Directors.</a>
*31.1	<a href="#">Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.</a>
*31.2	<a href="#">Certification of M. Susan Hardwick, Executive Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act.</a>
**32.1	<a href="#">Certification of Susan N. Story, President and Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.</a>
**32.2	<a href="#">Certification of M. Susan Hardwick, Executive Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act.</a>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

Pursuant to the requirements 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, on the 31st day of July, 2019 .

A M E R I C A N W A T E R W O R K S C O M P A N Y , I N C .

( R E G I S T R A N T )

By \_\_\_\_\_ /s/ SUSAN N. STORY

Susan N. Story  
President and Chief Executive Officer  
(Principal Executive Officer)

By \_\_\_\_\_ /s/ M. SUSAN HARDWICK

M. Susan Hardwick  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By \_\_\_\_\_ /s/ MELISSA K. WIKLE

Melissa K. Wikle  
Vice President and Controller  
(Principal Accounting Officer)

May 1, 2019

M. Susan Hardwick  
1414 S. Penn Sq.  
Unit 37D  
Philadelphia, PA 19102

Dear Susan:

On behalf of American Water, I am pleased to offer you the full-time position of EVP, Chief Financial Officer located at One Water St. Camden, NJ effective **July 1, 2019**. This position will report to Susan Story, Chief Executive Officer and President. Your employment will begin on June 3, 2019 as CFO-elect in a title of EVP--Finance until your transition on **July 1, 2019**. We anticipate that you will find this new role to be personally rewarding and one in which you can make significant contributions to the Company. ***The terms of this offer letter are subject to the recommendation of the Executive Development & Compensation Committee and the approval of the American Water Board of Directors.***

In joining American Water, you will be part of the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Founded in 1886, with headquarters in Camden, New Jersey, the Company employs over 7,100 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to more than 14 million people in 46 states and Ontario, Canada.

Safety, trust, teamwork, high performance, and environmental leadership define our culture – a culture where every employee feels valued and lives up to his or her potential. We believe that our success is based upon our employees having a vested interest in our business. As a part of our team, you will be tasked with helping make a great company even better – in doing so, you will be rewarded for your contributions. The following is our offer to you:

**Base Salary:** You will receive a bi-weekly salary of \$21,153.85 which when annualized, would be approximately \$550,000 subject to applicable withholdings. The salary grade for your position will be 90. Your job performance will be reviewed annually as part of our performance management process and you may be eligible for a merit increase in 2020.

**APP:** You are eligible to participate in American Water's Annual Performance Plan with a target award amount equal to 75% of your annual base salary. For 2019 you will be eligible for a pro-rated APP payout based on your date of hire. Awards from the Annual Performance Plan are based on several factors including the level of achievement, if at all, of pre-existing company performance goals and of individual performance objectives, and payments may be higher or lower than target.

**LTPP:** You are eligible to participate in American Water's Long Term Performance Plan (LTPP) with a target opportunity equal to 150% of your base salary as of the grant date, prorated for 2019 as of your date of hire, as approved by the Executive Development and Compensation Committee. For reference purposes, awards are currently granted in the following forms of equity in the Company: 30% in restricted stock units, 35% in performance stock units based on relative total shareholder return (TSR) ranking and 35% percent in performance stock units based on compounded adjusted EPS growth. LTPP awards are granted under the terms and conditions of the Company's 2017 Omnibus Equity Compensation Plan (the Plan), the LTPP program then in effect, and a grant document. In the event of any conflict between the terms of your offer letter and the terms of the Plan, the LTPP program then in effect and the grant document, the terms of those other documents will govern.

In addition, as CFO, your equity awards would include specific post-retirement vesting provisions applicable to that position. Under these provisions, if you remain CFO for at least three (3) consecutive years (beginning on the date your

May 1, 2019  
M. Susan Hardwick  
Page 2

appointment as EVP and CFO is effective), your equity awards will continue to vest over the normal vesting schedule of the award following a separation of service involving the executive based upon either normal retirement or early retirement, as follows:

- in the event of a normal retirement, defined as having attained age 60 and five years of service, an award will continue to vest in full; and
- in the event of an early retirement, defined as having attained age 55 and five years of service, 75 percent of each award will continue to vest.

Subject to Executive Compensation and Development Committee approval, if you retire before you have attained five years of service, but you have remained in your CFO role for a minimum of 3 consecutive years and have achieved the required age, you will remain eligible for this benefit, so long as a successor is identified and approved by the CEO and the Board of Directors. This benefit will not be unreasonably withheld as long as you make good faith efforts (as determined by the CEO) to identify and develop such a successor.

**Benefits:** American Water offers a competitive benefits program for you and your eligible dependents. An outline of our benefits is attached for your review. Our benefit plans include medical, prescription drug, dental, vision, flexible spending accounts (Health and Dependent Care), employer paid life/disability insurance, voluntary life insurance, Healthy Solutions incentive based wellness program, employee assistance program and educational assistance. Your enrollment is effective the 1<sup>st</sup> day of the month after your hire date.

You will be eligible to participate in the 401(k) Savings Plan and Defined Contribution plans effective the date of hire. Approximately one week after your hire date, you will receive a letter from Merrill Lynch advising that you will be automatically enrolled into the plan at a 3% contribution level. If you do not enroll on your own, the automatic enrollment will take place 30 days from the date of the letter. You can stop or change your contribution percentage at any time.

**Non-Qualified Deferred Compensation:** You will also be eligible to participate in our Non-Qualified Deferred Compensation Plan beginning in 2019, based on annual enrollment in December. The Company may make Employer Matching and Defined Contribution Account contributions as soon as administratively practicable after the end of the applicable plan year. Under the Non-Qualified Deferred Compensation Plan, Employer Matching contributions are immediately vested; Defined Contribution Account contributions will generally vest after five years of service. Subject to Executive Compensation and Development Committee approval, if you do not reach five (5) years of service, but remain in your CFO role for a minimum of 3 years, you will remain eligible for this benefit, so long as a successor is identified and approved by the CEO and the Board of Directors. This benefit will not be unreasonably withheld as long as you make good faith efforts (as determined by the CEO) to identify and develop such a successor.

**Additional Considerations:** You are eligible for a one time cash sign-on bonus valued at \$120,000, subject to applicable withholdings, which will be paid to you within 30 days of your start date.

**Relocation:** You will be eligible for relocation benefits under American Water's relocation policy according to the parameters of our policy and eligibility criteria as set forth by the IRS. You will be required to sign a Relocation Services Payback Agreement stating that if an employee resigns within 24 months of the date of his/her relocation, they are required to reimburse the relocation expenses to the Company on a pro-rated basis. The terms are confidential between you and American Water. You have elected to receive in cash the lump sum value of the

May 1, 2019  
M. Susan Hardwick  
Page 3

relocation plan in lieu of the services, which has a value of \$120,000. That payment will be made to you within 30 days of your start date, and is subject to all applicable withholdings.

**Holidays/Vacation:** You will be eligible for 25 days of paid vacation, 6 floating holidays and 8 fixed holidays per calendar year. Your time will be pro-rated for 2019.

**Sick Days:** You are eligible for 10 sick days annually. For the balance of <Year>, you will be eligible for # sick days.

**Executive Severance Policy**

You will be an eligible participant under the executive severance policy which provides severance benefits to executives whose employment is involuntarily terminated by American Water for reasons other than cause. A copy of the Executive Severance policy has been provided with this offer.

**This offer is contingent upon the successful completion and results of both a background check and a drug screen as well as approvals by the Executive Compensation and Development Committee and the American Water Board of Directors.** You will be receiving an email from our vendor, CareerBuilder, on behalf of American Water Careers, asking you to complete information for the background check and drug screen. Please complete this information as quickly as possible, and report for your drug screening within 48 hours.

Additionally, as part of our new hire process, you will be asked to complete a Form I-9 in compliance with the Immigration Reform and Control Act after the offer acceptance or no later than the first date of hire. Please refer to this link [Click Here](#) and follow the instructions. If you experience technical difficulty with this link, please contact your Recruiter.

Your signature below indicates your acceptance of our offer and the terms of employment with American Water. Please review all attachments and sign and return the Confidentiality and Intellectual Property Agreements with your offer letter.

It's my pleasure to welcome you to American Water where I know you will be a great asset to the Company!

Sincerely,

/s/ Susan Story

Susan Story  
President and CEO  
American Water

cc: Melanie M. Kennedy

*I, M. Susan Hardwick, understand that my employment with American Water is "at will," which means that I am not guaranteed employment or any particular job for any specified period of time. The Company or I may terminate my employment at any time, for any or no reason, with or without cause.*

/s/ M. Susan Hardwick \_\_\_\_\_ May 1, 2019  
Signature

Date

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of June 3, 2019 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to M. Susan Hardwick (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”)) has adopted a 2019 Long Term Performance Plan (“2019 LTPP”) pursuant to which designated employees will be granted equity awards (collectively, the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Equity Award is comprised of three separate grants: a restricted stock unit and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2019 LTPP and to grant the Participant an Equity Award under the 2019 LTPP; and

WHEREAS, the Committee has determined that the restricted stock unit portion of the Equity Award granted pursuant to the 2019 LTPP to the Participant shall be issued under the Plan and the terms and conditions of such restricted stock unit shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 1260 units (the “Restricted Stock Units”). Each unit (a “Unit”) shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the “Restricted Stock Unit Account”) for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.
  - (a) Except as provided in subparagraphs (c), (d), (e) and (f) below, the Restricted Stock Units shall vest on the following dates (each a “Service Date”), provided the Participant continues

---

to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

<u>Service Date</u>	<u>Units Vesting</u>
January 31, 2020	1/3
January 31, 2021	1/3
January 31, 2022	1/3

The vesting of the Restricted Stock Units is cumulative, but shall not exceed 100% of the Units subject to the Restricted Stock Units. If the foregoing schedule would produce fractional Units, the number of Units for which the Restricted Stock Units becomes vested on a Service Date shall be rounded down to the nearest whole Unit. The Restricted Stock Units shall become vested with respect to 100% of the Units subject to the Restricted Stock Units on January 31, 2022, if the Participant is employed by, or providing service to, the Employer on such date.

(b) Subject to subparagraphs (c), (d), (e) and (f) below, if at any time prior to January 31, 2022, the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(c) If prior to January 31, 2022, the Participant's employment or service with the Employer terminates on account of Normal Retirement (as defined below), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall continue to become vested following the Participant's termination of employment or service on account of Normal Retirement in accordance with the schedule set forth in subparagraph 3(a). For purposes of this Grant, (i) "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause (as defined below)) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof and (ii) "Cause" shall mean a finding by the Committee that the Participant (A) has breached his or her employment or service contract with the Employer, if any; (B) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (C) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (D) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (E) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

(d) If prior to January 31, 2022, the Participant's employment or service with the Employer terminates on account of Early Retirement (as defined below), then 75% of the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall continue to become vested following the Participant's termination of employment or service on account of Early Retirement in accordance with the schedule set forth in subparagraph 3(a) and the remaining 25% of the portion of the Restricted Stock Units that have not vested as of the Participant's Early Retirement shall be immediately forfeited. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after

the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(e) If at any time prior to January 31, 2022, the Participant's employment or service with the Employer terminates on account of Normal Retirement or Early Retirement before achieving five (5) total years of employment or service with the Employer, but the Participant has completed a minimum of three (3) years of service in the position of Chief Financial Officer and has achieved the required Normal Retirement or Early Retirement age, the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall continue to become vested following the Participant's termination of employment or service on account of Normal Retirement or Early Retirement in accordance with the schedule set forth in subparagraph 3(a), so long as the Participant has used good faith efforts (as determined by the Chief Executive Officer) to identify and develop a Chief Financial Officer successor who is approved by the Chief Executive Officer and the Board of Directors.

(f) If at any time prior to January 31, 2022, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Restricted Stock Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Restricted Stock Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in 3(c)), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of such termination of employment or service (the "Termination Date"). For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that have become vested pursuant to Paragraph 3 shall be redeemed by the Company on the earliest of the (i) applicable Service Date, (ii) the Change of Control Date or (iii) the Termination Date, (the date of redemption is hereinafter referred to as the "Redemption Date"). As soon as

administratively practicable following the applicable Redemption Date, but not later than forty-five (45) days following the Redemption Date, (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of clarity, if any Restricted Stock Units become vested pursuant to subparagraphs 3(c) or 3(d) above as a result of termination of employment or service with the Employer on account of Normal Retirement or Early Retirement, the Redemption Date for such vested Restricted Stock Units shall be the applicable Service Date or Change of Control Date to which such Restricted Stock Units would have been redeemed if the Participant had remained in the employment or service of the Employer ( i.e., the Redemption Date continues to be the originally scheduled Service Date as provided in subparagraph 3(a) above or the Change of Control Date, if earlier, and is not accelerated to an earlier Service Date or to the date on which the termination of employment or service occurs).

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the redemption of the Participant's Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the "Deferred Date."

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant's Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be immediately forfeited and not payable to the Participant.

No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in subparagraph 3(e) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of March 4, 2015 (and as they may be amended,

restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local

or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or

unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

/s/ Susan N. Story

By: Susan N. Story

Its: President and CEO

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of June 3, 2019, (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to M. Susan Hardwick (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”)) has adopted a 2019 Long Term Performance Plan (“2019 LTPP”) pursuant to which designated employees will be granted equity awards (collectively, the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share (the “Company Stock”);

WHEREAS, the Equity Award is comprised of three separate grants: a restricted stock unit, and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2019 LTPP and to grant the Participant an Equity Award under the 2019 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2019 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on the Performance Goal (defined below) relating to the Company’s Total Stockholder Return shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 931 performance stock units (the “Performance Units”). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goal and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goal described in Paragraph 3 below (the “Target Award”).

2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the “Performance Unit Account”) for the Participant and shall record in such Performance Unit Account the number of Performance Units

---

granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goal.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goal described in subparagraph (b) below for the Performance Period (the “Performance Goal”) and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) The Company’s Total Stockholder Return (“TSR”) (as described in subparagraph (c) below) will be compared to the TSR of the Peer Group companies set forth in Exhibit A attached hereto over the Performance Period (as defined below). The actual number of Performance Units the Participant earns may be greater or less than the Target Award, or even zero, based on the Company’s TSR percentile ranking relative to the TSR performance of the companies in the Peer Group, as follows:

<b><u>Level of Achievement</u></b>	<b><u>Percentile Ranking Relative to Peer Group</u></b>	<b><u>Percentage of Target Award Earned</u></b>
<i>Maximum</i>	90%	200%
<i>Target</i>	50%	100%
<i>Threshold</i>	25%	25%

If the Company’s actual TSR performance is between measuring points, the number of Performance Units the Participant earns will be interpolated. If the Company’s actual TSR performance is below the threshold, no Performance Units will be earned and all of Performance Units will be forfeited. If the Company’s actual TSR performance is greater than the maximum, only the maximum number of Performance Units will be earned.

(c) TSR represents stock price performance and dividend accumulation over the Performance Period for the Company and Peer Group. For purposes of this calculation, the initial stock price and the ending stock price are determined using the twenty (20) day average stock price for December 31, 2018, and December 31, 2021, as applicable. The twenty (20) day average stock price is the average of the daily closing stock prices for the twenty (20) trading days that end on the applicable December 31. If December 31 is not a trading day, the closing stock price on the first trading day prior to December 31 shall be used. To determine stock price performance, each closing stock price shall be adjusted by a dividend adjustment factor. The dividend adjustment factor takes into account each per share dividend paid for the Performance Period as well as the effect of any appreciation in stock price by reason of deeming the dividend to be reinvested in the stock. The dividend adjusted price provides the closing price for the requested day, week, or month, adjusted for all applicable splits and dividend distributions. At the end of the Performance Period, the TSR

for the Company, and for each company in the Peer Group, shall be determined pursuant to the following formula:

$$\text{TSR} = \left( \frac{\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price}}{\text{Dividend Adjusted Initial Stock Price}} \right)$$

The result shall be rounded to the nearest hundredth of one percent (.01%).

(d) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(f) below), the Committee will determine whether and to what extent the Performance Goal has been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(e) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the “surviving corporation”)) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the “Change of Control Date”). In the event the Participant’s Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant’s employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the “Termination Date”) and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, “Change of Control” shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the “Code”), and its corresponding regulations.

(f) For purposes of this Grant, the term “Performance Period” shall mean the three (3)-year period beginning on January 1, 2019 and ending December 31, 2021, and the term “Peer Group” shall mean those companies included in Exhibit A as of January 1, 2019. If at any time during the Performance Period a company in the Peer Group is no longer a publicly traded entity, such company shall be removed from the Peer Group as of January 1 of the year in which the company is no longer publicly traded.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(e), 4(b), 4(c) or 4(d), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2020, but prior to January 31, 2021; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2021, but prior to January 31, 2022; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2022. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant has remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goal and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goal and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of

service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) If at any time prior to January 31, 2022, the Participant's employment or service with the Employer terminates on account of Normal Retirement or Early Retirement before achieving five (5) total years of employment or service with the Employer, but the Participant has completed a minimum of three (3) years of service in the position of Chief Financial Officer and has achieved the required Normal Retirement or Early Retirement age, then the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period following the Participant's termination of employment or service on account of Normal Retirement or Early Retirement, so long as the Participant has used good faith efforts (as determined by the Chief Executive Officer) to identify and develop a Chief Financial Officer successor who is approved by the Chief Executive Officer and the Board of Directors.

(e) Except as set forth in Paragraphs 4(b), 4(c) or 4(d), if at any time prior to the earlier of January 31, 2020 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(f) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goal. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2022 (the "Distribution Date"), (b) the Change of Control Date or (c) the Termination Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any Performance Units not earned because of the failure to attain the Performance Goal and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2019 LTPP, complete the deferral election form provided to the Participant by the Committee and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is

and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

i. to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

ii. that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of March 4, 2015 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to

carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's

discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or

unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

*[SIGNATURE PAGE FOLLOWS]*

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

/s/ Susan N. Story

By: Susan N. Story

Its: President and CEO

PSU Grant A

Exhibit A

PEER GROUP COMPANIES

1. Alliant Energy Corporation
2. Ameren Corporation
3. Atmos Energy Group
4. Centerpoint Energy
5. CMS Energy Corporation
6. Entergy Corporation
7. Evergy, Inc.
8. Eversource Energy
9. MDU Resources Group
10. NiSource Inc.
11. OG&E Energy Corporation
12. Pinnacle West Capital Corporation
13. PPL Corporation
14. UGI Corporation
15. Wisconsin Energy Corporation

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
PERFORMANCE STOCK UNIT GRANT

This PERFORMANCE STOCK UNIT GRANT, dated as of June 3, 2019 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to M. Susan Hardwick (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”)) has adopted a 2019 Long Term Performance Plan (“2019 LTPP”) pursuant to which designated employees will be granted equity awards (collectively, the “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share (the “Company Stock”);

WHEREAS, the Equity Award is comprised of three separate grants: a restricted stock unit and two performance stock unit grants;

WHEREAS, the Committee has determined that the Participant is eligible to participate in the 2019 LTPP and to grant the Participant an Equity Award under the 2019 LTPP; and

WHEREAS, the Committee has determined that the performance stock unit portion of the Equity Award granted to the Participant pursuant to the 2019 LTPP shall be issued under the Plan, and the terms and conditions of the performance stock unit grant that may be earned based on Performance Goals (defined below) relating to compounded earnings per share, as set forth in Exhibit A attached hereto, shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Performance Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 1470 performance stock units (the “Performance Units”). The Performance Units are contingently awarded and will be earned and distributable if and only to the extent that the Performance Goals and other conditions set forth in this Grant are met. Each Performance Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable payment date, as described in Paragraph 5 below. The number of Performance Units set forth above is equal to the target number of shares of Company Stock that the Participant will earn for 100% achievement of the Performance Goals described in this Grant (the “Target Award”).
  2. Performance Unit Account. The Company shall establish and maintain a Performance Unit account as a bookkeeping account on its records (the “Performance Unit Account”) for the Participant and shall record in such Performance Unit Account the number of Performance Units granted to the Participant. The Participant shall not have any interest in any fund or specific
-

assets of the Company by reason of this grant or the Performance Unit Account established for the Participant.

3. Performance Goals.

(a) Unless a Change of Control (as defined below) occurs prior to the end of the Performance Period (as defined below), the distribution of the shares of Company Stock attributable to the Performance Units is contingent upon achievement of the performance goals set forth in Exhibit A attached hereto (the “Performance Goals”) and the Participant satisfying the continuation of employment and service with the Employer (as defined in the Plan) requirement described in Paragraph 4 below.

(b) As soon as administratively practicable following the end of the Performance Period (as defined in Paragraph 3(d) below), the Committee will determine whether and to what extent the Performance Goals have been met and the number of Performance Units the Participant has earned, if any. Except as described in Paragraph 4 below, the Participant must be employed by, or providing service to, the Employer on the last day of the Performance Period in order to earn the Performance Units.

(c) If a Change of Control occurs prior to the end of the Performance Period, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the “surviving corporation”)) and the Performance Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the Performance Period will end on the date of the Change of Control and the Performance Units will be deemed earned at the Target Award level as of the date of the Change of Control (the “Change of Control Date”). In the event the Participant’s Performance Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant’s employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined in Paragraph 4(e) hereof), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the Performance Period will end on the date of such termination of employment or service (the “Termination Date”) and the Performance Units will be deemed earned at the Target Award level as of the Termination Date. For purposes of this Grant, “Change of Control” shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) and its corresponding regulations.

(d) For purposes of this Grant, the term “Performance Period” shall mean the three (3)-year period beginning on January 1, 2019 and ending December 31, 2021.

4. Termination of Employment or Service.

(a) Except as set forth in Paragraphs 3(c) 4(b), 4(c) or 4(d), if, at least one year after the beginning of the Performance Period, but prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of any reason other than a termination for Cause (as defined below), the Participant will earn a pro-rata portion of the Performance Units, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. The pro-rata portion earned will be equal to the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, multiplied by a fraction, which fraction shall be equal to (i) 1/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2020, but prior to January 31, 2021; (ii) 2/3, if the Participant's employment or service with the Employer terminates on or after January 31, 2021, but prior to January 31, 2022; and (iii) 3/3, if the Participant's employment or service terminates with the Employer on or after January 31, 2022. If the Participant ceases to be employed by, or provide service to, the Employer for any reason other than on account of Cause, the prorated number of Performance Units earned by the Participant pursuant to this Paragraph 4(a) will be distributed in accordance with Paragraph 5.

(b) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement, then the Participant will earn the number of Performance Units that would have been earned if the Participant has remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period. If the Participant ceases to be employed by, or provide service to, the Employer on account of Normal Retirement pursuant to this subparagraph (b), the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Normal Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age sixty (60) and has five (5) total years of employment or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(c) Notwithstanding any provision of this Agreement to the contrary, if prior to the end of the Performance Period, the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement, then the Participant will earn 75% of the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goals and the requirements of this Grant are met as of the last day of the Performance Period, and unearned Performance Units shall be immediately forfeited. If the Participant ceases to be employed by, or provide service to, the Employer on account of Early Retirement pursuant to this subparagraph (c), then the number of Performance Units that are earned based on the Performance Goals and other requirements of this Grant will be distributed in accordance with Paragraph 5. For purposes of this Grant, "Early Retirement" shall mean termination of employment or service with the Employer (other than for Cause) after the Participant has attained age fifty-five (55) and has five (5) total years of employment

or service with the Employer which includes at least three (3) consecutive full calendar years of service in the position of Chief Executive Officer, Chief Operating Officer or Chief Financial Officer, or any combination thereof.

(d) If at any time prior to January 31, 2022, the Participant's employment or service with the Employer terminates on account of Normal Retirement or Early Retirement before achieving five (5) total years of employment or service with the Employer, but the Participant has completed a minimum of three (3) years of service in the position of Chief Financial Officer and has achieved the required Normal Retirement or Early Retirement age, then the Participant will earn the number of Performance Units that would have been earned if the Participant had remained employed through the last day of the Performance Period, if the Performance Goal and the requirements of this Grant are met as of the last day of the Performance Period following the Participant's termination of employment or service on account of Normal Retirement or Early Retirement, so long as the Participant has used good faith efforts (as determined by the Chief Executive Officer) to identify and develop a Chief Financial Officer successor who is approved by the Chief Executive Officer and the Board of Directors.

(e) Except as set forth in Paragraphs 4(b), 4(c) or 4(d), if at any time prior to the earlier of January 31, 2020 or a Change of Control, the Participant's employment or service with the Employer is terminated by the Employer on account of any reason or no reason or by the Participant for any reason or no reason, all of the Performance Units subject to this Grant shall be immediately forfeited as of the date of the Participant's termination of employment or service with the Employer and the Participant shall not have any rights with respect to the distribution of any portion of the Performance Units.

(f) If at any time prior to the date the Performance Units are distributed in accordance with Paragraph 5 the Participant's employment or service with the Employer is terminated on account of Cause, all of the Performance Units subject to this Grant shall be immediately forfeited and the Participant will not have any rights with respect to the distribution of any portion of the Performance Units, irrespective of the level of achievement of the Performance Goals. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv) has breached any written noncompetition or non-solicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

5. Time and Form of Payment with Respect to Performance Units. Unless an election is made pursuant to Paragraph 6 below, the Participant will receive a distribution with respect to the Performance Units earned as described in Paragraphs 3 and 4 above within seventy (70) days following the earliest of (a) January 31, 2022 (the "Distribution Date"), (b) the Change of Control Date, or (c) the Termination Date. The Performance Units will be distributed in shares of Company Stock, with each Performance Unit earned equivalent to one share of Company Stock. Any

Performance Units not earned because of the failure to attain the Performance Goals and service condition will be immediately forfeited.

6. Deferrals. The Participant may make an irrevocable election to defer the Distribution Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Performance Units that are earned, plus dividend equivalents earned on such Performance Units as described in Paragraph 7 below, to a later date, provided that (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the deferred Distribution Date cannot be earlier than five (5) years from the original Distribution Date under Paragraph 5 above (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Distribution Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Distribution Date, the Participant must elect to defer 100% of the Performance Units, including corresponding dividend equivalents, earned by the Participant under this Grant, as well as 100% of the other performance stock units, including corresponding dividend equivalents, earned by the Participant under the 2019 LTPP, complete the deferral election form provided to the Participant by the Committee, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant's election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the distribution of the Participant's earned Performance Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Distribution Date is delayed one or more times pursuant to this Paragraph 6, the new Distribution Date shall be referred to as the "Deferred Date."

7. Dividend Equivalents. Until the earlier of the Distribution Date (or the Deferred Date, if elected), the Change of Control Date or the Termination Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the "Dividend Equivalent Account") the value of the dividends that would have been distributed if the Performance Units credited to the Participant's Performance Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Performance Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant's Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant's Dividend Equivalent Account that are attributable to Performance Units that have been forfeited as provided in Paragraph 3 and 4 above shall be forfeited and not payable to the Participant. No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

8. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Performance Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

9. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that, with respect to any right to distribution pursuant to the Plan or this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

10. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the Participant earning the Performance Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock upon conversion of the earned Performance Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and/or from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that any shares of Company Stock received by the Participant upon the distribution of the earned Performance Units pursuant to this Grant shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of March 4, 2015 (and as they may be amended, restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

11. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

12. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

13. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 7), or the right to vote, with respect to any Performance Units.

14. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

15. Assignment and Transfers. No Performance Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Performance Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Performance Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

16. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the grant, vesting and distribution of the Performance Units and dividend equivalents. Any tax withholding obligation of

the Employer with respect to the distribution of shares of Company Stock pursuant to the Performance Units that are earned by the Participant under this Grant may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

17. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Performance Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

18. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

19. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

20. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Performance Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 6 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

21. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

[ *SIGNATURE PAGE FOLLOWS* ]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

/s/ Susan N. Story

By: Susan N. Story

Its: President and CEO

**“PSU GRANT B – EPS”**

**EXHIBIT A**

**PERFORMANCE GOALS**

The number of Performance Units that may be earned shall be determined based on the achievement of Compounded Earnings Per Share Growth (as described below) over the Performance Period.

Compounded Earnings Per Share (“EPS”) Growth – will be calculated based on fully diluted EPS calculated in accordance with US GAAP as reported in the Company’s audited consolidated financial statements adjusted to exclude all items of gain, loss or expense for the fiscal year determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principle or, as determined by the Committee, any other change or event similar in nature. The starting point for the calculation will be adjusted EPS of \$3.30 for the year ended December 31, 2018. The ending point for the calculation will be EPS for the year ended December 31, 2021, adjusted to exclude all items of gain, loss or expense for the fiscal year determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a segment of a business or related to a change in accounting principle or, as determined by the Committee, any other change or event similar in nature.

The award scale for Compounded EPS Growth is as follows:

Compounded EPS Growth	
Actual Compounded EPS Growth	Target Award
13.2% or more	200%
11.2%	175%
8.97%	100%
7.2%	25%
<= 7.2%	0%

If actual achievement of the Performance Goal does not meet threshold performance (i.e., less than 7.2% for Compounded EPS Growth, then that Performance Goal will be reflected in the final result for determining the number of earned Performance Units at its assigned weighting with a 0%. The maximum award that may be earned for each Performance Goal is capped at 200%, and the maximum award that may be earned by the Participant is capped at 200% of the Target Award.

Example:

The following is an example calculation for a Participant with a Target Award of 1,000 Performance Units:

Earnings Per Share

	12/31/2018 Adjusted	12/31/2021 Illustration
Adjusted diluted earnings per share from continuing operations	\$ 3.30	\$ 4.34
<b>Compounded EPS growth</b>		<b>9.56%</b>

Earned Performance Units

	Achievement	Award
<b>Compounded EPS Growth</b>	<b>9.56%</b>	<b>120.0%</b>

In this example, the individual who was awarded a Target Grant of 1,000 Performance Units would earn 1,200 Performance Units (1,000 x 1.2), which is convertible into an equivalent number of shares of Company Stock assuming all other terms and conditions of the Grant have been satisfied.

AMERICAN WATER WORKS COMPANY, INC.  
2017 OMNIBUS EQUITY COMPENSATION PLAN  
RESTRICTED STOCK UNIT GRANT

This RESTRICTED STOCK UNIT GRANT, dated as of June 3, 2019 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to Brian Chin (the “Participant”).

RECITALS

WHEREAS, the Committee (as defined in the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”)) may grant equity awards under the Plan (each, an “Equity Award”) for shares of Common Stock of the Company, par value \$0.01 per share, (the “Company Stock”);

WHEREAS, the Committee in accordance with the Plan, has determined to grant the Participant an Equity Award in the form of restricted stock units; and

WHEREAS, the Committee has determined that the restricted stock units granted to the Participant hereunder shall be issued under the Plan and the terms and conditions of such restricted stock units shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Restricted Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant 877 units (the “Restricted Stock Units”). Each unit (a “Unit”) shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable Redemption Date (as defined below).
2. Restricted Stock Unit Account. The Company shall establish and maintain a Restricted Stock Unit account as a bookkeeping account on its records (the “Restricted Stock Unit Account”) for the Participant and shall record in such Restricted Stock Unit Account the number of Restricted Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Restricted Stock Unit Account established for the Participant.
3. Vesting.
  - (a) Except as provided in subparagraph (c) below, the Restricted Stock Units shall vest on the following dates (each a “Service Date”), provided the Participant continues to be employed by, or providing service to, the Employer (as defined in the Plan) from the Date of Grant through the applicable Service Date:

<u>Service Date</u>	<u>Units Vesting</u>
April 1, 2020	1/2
April 1, 2021	1/4
April 1, 2022	1/4

The vesting of the Restricted Stock Units is cumulative, but shall not exceed 100% of the Units subject to the Restricted Stock Units. If the foregoing schedule would produce fractional Units, the number of Units for which the Restricted Stock Units becomes vested on a Service Date shall be rounded down to the nearest whole Unit. The Restricted Stock Units shall become vested with respect to 100% of the Units subject to the Restricted Stock Units on April 1, 2022, if the Participant is employed by, or providing service to, the Employer on such date.

(b) Subject to subparagraph (c) below, if at any time prior to April 1, 2022, the Participant's employment or service with the Employer terminates for any reason, including death or disability, then all of the unvested Restricted Stock Units shall be immediately forfeited and the Participant shall not have any rights with respect to the vesting or the redemption of any portion of the Restricted Stock Unit.

(c) If at any time prior to April 1, 2022, but while the Participant is employed by or providing service to the Employer, a Change of Control (as defined below) occurs, the Company is not the surviving corporation (or survives only as a subsidiary of another corporation or entity (the "surviving corporation")) and the Restricted Stock Units are not converted to similar grants of the surviving corporation (or a parent or subsidiary of the surviving corporation), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of the Change of Control (the "Change of Control Date"). In the event the Participant's Restricted Stock Units are assumed by the surviving corporation but the Participant ceases to be employed by, or providing service to, the surviving corporation (or a parent or subsidiary of the surviving corporation) within twelve (12) months after the date of the Change of Control on account of (i) a termination of such Participant's employment by the surviving corporation (or a parent or subsidiary of the surviving corporation) for any reason other than on account of Cause (as defined below), or on account of death or Disability (each as defined in the Plan), or (ii) a termination of employment or service by the Participant for Good Reason (as defined in the Plan), then the portion of the Restricted Stock Units that have not yet vested as provided in subparagraph 3(a) above shall become fully vested on the date of such termination of employment or service (the "Termination Date"). For purposes of this Grant, "Change of Control" shall mean as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Agreement unless the event constituting the Change of Control constitutes a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and its corresponding regulations. For the avoidance of doubt, if the Change of Control does not constitute a permitted change in control event under section 409A of the Code, then the Restricted Stock Unit shall not vest on the occurrence of the Change of Control. For purposes of this Grant, "Cause" shall mean a finding by the Committee that the Participant (i) has breached his or her employment or service contract with the Employer, if any; (ii) has engaged in disloyalty to the Employer including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty; (iii) has disclosed trade secrets or confidential information of the Employer to persons not entitled to receive such information; (iv)

has breached any written noncompetition or nonsolicitation agreement between the Participant and the Employer; or (v) has engaged in such other behavior detrimental to the interests of the Employer as the Committee determines.

4. Redemption. Unless an election is made pursuant to Paragraph 5 below, the Restricted Stock Units that have become vested pursuant to Paragraph 3 shall be redeemed by the Company on the earliest of the (i) applicable Service Date, (ii) the Change of Control Date or (iii) the Termination Date, (the date of redemption is hereinafter referred to as the “Redemption Date”). As soon as administratively practicable following the applicable Redemption Date, but not later than forty-five (45) days following the Redemption Date, (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), all Restricted Stock Units that become vested pursuant to Paragraph 3 above shall be redeemed and converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan.

5. Deferrals. The Participant may make an irrevocable election to defer the Redemption Date (or further defer the Deferred Date (as defined below), if applicable) of any of the Restricted Stock Units that vest, plus dividend equivalents earned on such Restricted Stock Units as described in Paragraph 6 below, to a later date, provided that (a) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (b) the new Redemption Date cannot be earlier than five (5) years from the original Redemption Date under Paragraph 4 above (or five (5) years from the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (c) the election must be made no less than twelve (12) months prior to the date of the Redemption Date (twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Redemption Date, the Participant must complete the deferral election form provided to the Participant by the Committee, and return such form to the Company in the manner and by the deadline provided therein. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Committee for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant’s election pursuant to this Paragraph, if the Change of Control Date or the Termination Date occurs prior to the Deferred Date, the redemption of the Participant’s Restricted Stock Units, plus corresponding dividend equivalents, will be the Change of Control Date or the Termination Date, as applicable. If a Redemption Date is delayed one or more times pursuant to this Paragraph 5, the new Redemption Date shall be referred to as the “Deferred Date.”

6. Dividend Equivalents. Until the Redemption Date (or the Deferred Date, if elected), if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the “Dividend Equivalent Account”) the value of the dividends that would have been distributed if the Restricted Stock Units credited to the Participant’s Restricted Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. On the Redemption Date (or the Deferred Date, if applicable), the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant’s Dividend Equivalent Account; provided, however, that any dividends that were credited to the Participant’s Dividend Equivalent Account that are attributable to Units that have been forfeited as provided in Paragraph 3 above shall be immediately forfeited and not payable to the Participant.

No interest shall accrue on any dividend equivalents credited to the Participant's Dividend Equivalent Account.

7. Change of Control. Except as set forth in Paragraph 3(c) of this Grant, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Restricted Stock Units, and, in the event of a Change of Control, the Committee may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to redemption or distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) To the extent permitted by Code section 409A, the obligation of the Company to deliver shares of Company Stock upon the redemption of the Restricted Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(b) The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(c) As a condition to receive any shares of Company Stock on the Redemption Date (or the Deferred Date, if applicable), the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and the Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the redemption of the Restricted Stock Units shall be subject to the guidelines and restrictions set forth in the Company's Executive Stock Ownership Guidelines and Executive Stock Retention Requirements, effective as of March 4, 2015 (and as they may be amended,

restated, supplemented and interpreted), and any applicable clawback or recoupment policies and other policies that may be implemented by the Company's Board of Directors or a duly authorized committee thereof, from time to time.

10. Participant Undertaking. The Participant agrees to take whatever additional actions and execute whatever additional documents the Company may deem necessary or advisable in order to carry out or effect one or more of the obligations or restrictions imposed on the Participant pursuant to the provisions of this Grant.

11. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Committee in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (a) rights and obligations with respect to withholding taxes, (b) the registration, qualification or listing of the shares of Company Stock, (c) changes in capitalization of the Company, and (d) other requirements of applicable law. The Committee shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder. By accepting this Grant, the Participant agrees (i) to be bound by the terms of the Plan and this Grant, (ii) to be bound by the determinations and decisions of the Committee with respect to this Grant, the Plan and the Participant's rights to benefits under this Grant and the Plan, and (iii) that all such determinations and decisions of the Committee shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

12. No Rights as Stockholder. The Participant shall not have any rights as a stockholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Restricted Stock Units.

13. No Rights to Continued Employment or Service. This Grant shall not confer upon the Participant any right to be retained in the employment or service of the Employer and shall not interfere in any way with the right of the Employer to terminate the Participant's employment or service at any time. The right of the Employer to terminate at will the Participant's employment or service at any time for any reason is specifically reserved.

14. Assignment and Transfers. No Restricted Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and a Restricted Stock Unit shall be redeemed and a dividend equivalent distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Restricted Stock Unit or dividend equivalent by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

15. Withholding. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local

or other taxes that the Employer is required to withhold with respect to the grant, vesting and redemption of the Restricted Stock Units and payment of dividend equivalents. Any tax withholding obligation of the Employer with respect to the redemption of the Restricted Stock Units may, at the Committee's discretion, be satisfied by having shares of Company Stock withheld, up to an amount that does not exceed the minimum applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities.

16. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Restricted Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Company or the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

17. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflict of laws provisions thereof.

18. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll records of the Employer, or to such other address as the Participant may designate to the Employer in writing. Any notice shall be (i) delivered by hand, (ii) delivered by a national overnight courier or delivery service, (iii) enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service, or (iv) in the case of notices by the Company to the Participant, delivered by e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means).

19. Taxation; Code Section 409A. As applicable, this Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered in accordance with Code section 409A. Notwithstanding any provision to the contrary herein, if the Restricted Stock Units constitute "deferred compensation" under section 409A of the Code, distributions made with respect to this Grant may only be made in a manner and upon an event permitted by Code section 409A. To the extent that any provision of the Grant would cause a conflict with the requirements of Code section 409A, or would cause the administration of the Grant to fail to satisfy the requirements of Code section 409A, such provision shall, to the extent practicable if permitted by applicable law, be deemed null and void. In the event that it is determined not feasible to void a provision of this Grant, such provision shall be construed in a manner as to comply with the Code section 409A requirements. This Grant may be amended without the consent of the Participant in any respect deemed by the Committee or its delegate to be necessary in order to comply with Code section 409A. Unless a valid election is made pursuant to Paragraph 5 above, in no event may the Participant, directly or indirectly, designate the calendar year of distribution. Notwithstanding anything in the Plan or the Grant to the contrary, the Participant shall be solely responsible for the tax consequences of this Grant, and in no event shall the Company have any responsibility or liability if this Grant does not meet any applicable requirements of Code section 409A.

20. Severability. In the event one or more of the provisions of this Grant should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or

unenforceability will not affect any other provisions of this Grant, and this Grant will be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

/s/ Susan N. Story

By: Susan N. Story

Its: President and CEO

AMERICAN WATER WORKS COMPANY, INC.

2017 OMNIBUS EQUITY COMPENSATION PLAN

STOCK UNIT GRANT

This STOCK UNIT GRANT, dated as of May 10, 2019 (the “Date of Grant”), is delivered by American Water Works Company, Inc. (the “Company”) to \_\_\_\_\_ (the “Participant”).

RECITALS

WHEREAS, the Board of Directors of the Company (the “Board”) has determined to grant each non-employee director of the Company on the date of the Company’s 2019 Annual Meeting of Shareholders a stock unit grant that will be converted to shares of common stock of the Company, par value \$0.01 per share, (the “Company Stock”) at a later date;

WHEREAS, the Participant is a non-employee director on the Board; and

WHEREAS, the Board has determined that the stock unit grant granted to the Participant shall be issued under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the “Plan”) and the terms and conditions of such stock unit shall be memorialized in this grant (the “Grant”).

NOW, THEREFORE, the parties to this Grant, intending to be legally bound hereby, agree as follows:

1. Grant of Stock Units. Subject to the terms and conditions set forth in this Grant and the Plan, the Company hereby grants to the Participant \_\_\_\_\_ units (the “Stock Units”). Each Stock Unit shall be a phantom right and shall be equivalent to one share of Company Stock on the applicable distribution date, as described in Paragraph 4 below.

2. Stock Unit Account. The Company shall establish and maintain a Stock Unit account as a bookkeeping account on its records (the “Stock Unit Account”) for the Participant and shall record in such Stock Unit Account the number of Stock Units granted to the Participant. The Participant shall not have any interest in any fund or specific assets of the Company by reason of this grant or the Stock Unit Account established for the Participant.

3. Vesting. The Participant shall be fully vested in the Stock Units credited to the Participant’s Stock Unit Account pursuant to this Grant on the Date of Grant.

4. Distribution. The Stock Units shall be converted to shares of Company Stock and distributed by the Company within thirty (30) days following the earlier of (i) August 14, 2020 (the “Specified Date”) (or, if applicable, the Deferred Date, as defined in Paragraph 5 below), (ii) the Participant’s separation from service (within the meaning of section 409A of the Internal

---

Revenue Code of 1986, as amended (the “Code”) with the Company (the “Separation from Service Date”), or (iii) the date of a Change of Control (as defined below) (the “Change of Control Date”). At the time of distribution, all Stock Units shall be converted to an equivalent number of shares of Company Stock, and the Participant shall receive a single distribution of such shares of Company Stock, which shall be issued under the Plan. For purposes of this Grant, the term “Change of Control” shall have the same meaning as such term is defined in the Plan, except that a Change of Control shall not be deemed to have occurred for purposes of this Grant unless the event constituting the Change of Control constitutes a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, within the meaning of section 409A of the Code and its corresponding regulations.

5. Deferrals. The Participant may make an irrevocable election to defer the Specified Date (or further defer the Deferred Date (as defined below), if applicable) of all of the Stock Units, plus dividend equivalents earned on such Stock Units as described in Paragraph 6 below, to a later date, provided that (i) the election shall not take effect until at least twelve (12) months after the date on which the election is made, (ii) the deferred Specified Date cannot be earlier than five (5) years from the original Specified Date under Paragraph 4 (or five (5) years from the applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made), and (iii) the election must be made no less than twelve (12) months prior to the date of the Specified Date (or twelve (12) months prior to the previously applicable Deferred Date, if a subsequent deferral of a Deferred Date is being made). To defer the Specified Date, the Participant must elect to defer 100% of the Stock Units, including corresponding dividend equivalents, granted to the Participant under this Grant and complete the deferral election form provided to the Participant by the Board, in the form attached hereto as Exhibit A or as may subsequently modified in the discretion of the Board. If the Participant desires to make a further deferral, the Participant must make such election on a separate form provided by the Board for such purpose. Any such election shall be made in accordance with section 409A of the Code and any corresponding guidance and regulations issued under section 409A of the Code. Notwithstanding a Participant’s election pursuant to this Paragraph, if the Separation from Service Date or Change of Control Date occurs prior to the Deferred Date, the distribution of the Participant’s Stock Units, plus corresponding dividend equivalents, will be made as a result of the occurrence of the Separation from Service Date or Change of Control Date, whichever is earlier. If a Specified Date is delayed one or more times pursuant to this Paragraph 5, the new Specified Date shall be referred to as the “Deferred Date.”

6. Dividend Equivalents. Until the earlier of the Specified Date (or the Deferred Date, if elected), Separation from Service Date or Change of Control Date, if any dividends are paid with respect to the shares of Company Stock, the Company shall credit to a dividend equivalent account (the “Dividend Equivalent Account”) the value of the dividends that would have been distributed if the Stock Units credited to the Participant’s Stock Unit Account as of the date of payment of any such dividend were shares of Company Stock. At the same time that the Stock Units are converted to shares of Company Stock and distributed to the Participant, the Company shall pay to the Participant in a lump sum cash equal to the value of the dividends credited to the Participant’s Dividend Equivalent Account. No interest shall accrue on any dividend equivalents credited to the Participant’s Dividend Equivalent Account.

7. Change of Control. Except as set forth above, the provisions set forth in the Plan applicable to a Change of Control (as defined in the Plan) shall apply to the Stock Units, and, in the event of a Change of Control, the Board may take such actions as it deems appropriate pursuant to the Plan and is consistent with the requirements of section 409A of the Code.

8. Acknowledgment by Participant. By accepting this Grant, the Participant acknowledges that with respect to any right to distribution pursuant to this Grant, the Participant is and shall be an unsecured general creditor of the Company without any preference as against other unsecured general creditors of the Company, and the Participant hereby covenants for himself or herself, and anyone at any time claiming through or under the Participant, not to claim any such preference, and hereby disclaims and waives any such preference which may at any time be at issue, to the fullest extent permitted by applicable law. The Participant also hereby agrees to be bound by the terms and conditions of the Plan and this Grant. The Participant further agrees to be bound by the determinations and decisions of the Board with respect to this Grant and the Plan and the Participant's rights to benefits under this Grant and the Plan, and agrees that all such determinations and decisions of the Board shall be binding on the Participant, his or her beneficiaries and any other person having or claiming an interest under this Grant and the Plan on behalf of the Participant.

9. Restrictions on Issuance or Transfer of Shares of Company Stock.

(a) The obligation of the Company to deliver shares of Company Stock upon the distribution of the Stock Units shall be subject to the condition that shares of Company Stock be qualified for listing on the New York Stock Exchange or another securities exchange and be registered under the Securities Act of 1933, as amended, and that any consent or approval of any governmental regulatory body that is necessary to issue shares of Company Stock has been so obtained, and that shares of Company Stock may not be issued in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. The issuance of shares of Company Stock and the payment of cash to the Participant pursuant to this Grant is subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

(b) As a condition to receive any shares of Company Stock upon conversion of the Stock Units, the Participant agrees:

(i) to be bound by, and to comply with, the Company's policies and practices (as they may be in effect from time to time) regarding the restrictions or limitations on the transfer of such shares, and understands that the Participant may be restricted or prohibited at any time and from time to time from selling, transferring, pledging, donating, assigning, margining, mortgaging, hypothecating or otherwise encumbering the shares in accordance with such policies and practices, including without limitation the Company's Insider Trading and Prohibited Transactions Policy and its Personal Securities Trading and Preclearance Practice; and

(ii) that the shares of Company Stock obtained by the Participant upon the distribution of the Stock Units shall not be transferred or disposed of by any means until

the Participant owns enough shares of Company Stock, or shares underlying stock units convertible into shares of Company Stock, or time-based restricted Company Stock, to meet or exceed five (5) times the Participant's annual cash retainer, which ownership requirement must be satisfied by the fifth (5th) anniversary of the Participant's commencement of service as a director on the Board.

10. Grant Subject to Plan Provisions. This Grant is made pursuant to the Plan, the terms of which are incorporated herein by reference, and in all respects shall be interpreted in accordance with the Plan. In the event of any contradiction, distinction or difference between this Grant and the terms of the Plan, the terms of the Plan will control. Except as otherwise defined in this Grant, capitalized terms used in this Grant shall have the meanings set forth in the Plan. This Grant is subject to the interpretations, regulations and determinations concerning the Plan established from time to time by the Board in accordance with the provisions of the Plan, including, but not limited to, provisions pertaining to (i) rights and obligations with respect to withholding taxes, (ii) the registration, qualification or listing of the shares of Company Stock, (iii) changes in capitalization of the Company, and (iv) other requirements of applicable law. The Board shall have the authority to interpret and construe this Grant pursuant to the terms of the Plan, its decisions shall be conclusive as to any questions arising hereunder and the Participant's acceptance of this Grant is the Participant's agreement to be bound by the interpretations and decisions of the Board with respect to this Grant and the Plan.

11. No Rights as Shareholder. The Participant shall not have any rights as a shareholder of the Company, including the right to any cash dividends (except with respect to the dividend equivalent rights provided in Paragraph 6), or the right to vote, with respect to any Stock Units.

12. No Rights to Continued Service. This Grant shall not confer upon the Participant any right to be retained in the service of the Employer (as defined in the Plan) and shall not interfere in any way with the right to terminate the Participant's service at any time. The right to terminate at will the Participant's service at any time for any reason is specifically reserved.

13. Assignment and Transfers. No Stock Units or dividend equivalents awarded to the Participant under this Grant may be transferred, assigned, pledged, or encumbered by the Participant and the Stock Units and dividend equivalents shall be distributed during the lifetime of the Participant only for the benefit of the Participant. Any attempt to transfer, assign, pledge, or encumber the Stock Units or dividend equivalents under this Grant by the Participant shall be null, void and without effect. The rights and protections of the Company hereunder shall extend to any successors or assigns of the Company. This Grant may be assigned by the Company without the Participant's consent.

14. Withholding. To the extent required by applicable law, the Participant shall be required to pay to the Company, or make other arrangements satisfactory to the Company to provide for the payment of, any federal, state, local or other taxes that the Company is required to withhold with respect to the Grant, vesting or distribution of the Stock Units and dividend equivalents.

15. Effect on Other Benefits. The value of shares of Company Stock and dividend equivalents distributed with respect to the Stock Units shall not be considered eligible earnings for purposes of any other plans maintained by the Employer. Neither shall such value be considered part of the Participant's compensation for purposes of determining or calculating other benefits that are based on compensation, such as life insurance.

16. Applicable Law. The validity, construction, interpretation and effect of this Grant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to the conflicts of laws provisions thereof.

17. Notice. Any notice to the Company provided for in this instrument shall be addressed to the Company in care of the General Counsel at the Company's corporate headquarters, and any notice to the Participant shall be addressed to such Participant at the current address shown on the records of the Company, or to such other address as the Participant may designate to the Company in writing. Any notice shall be delivered by hand, sent by facsimile, e-mail or other electronic means (with confirmation of receipt to be made by any oral, electronic or written means), or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage prepaid, in a post office regularly maintained by the United States Postal Service.

18. Section 409A of the Code.

(a) This Grant is intended to comply with the requirements of section 409A of the Code and shall be interpreted and administered to avoid any penalty sanctions under section 409A of the Code. If any distribution cannot be provided or made at the time specified herein or as elected by the Participant, then such distribution shall be provided in full at the earliest time thereafter when such sanctions cannot be imposed. Except according to a valid election made pursuant to Paragraph 5 above, in no event may the Participant designate the calendar year of distribution.

(b) Notwithstanding any provision to the contrary in this Grant, if any of the distributions under this Grant are payable to the Participant upon separation from service (within the meaning of section 409A of the Code) from the Employer, then if at the time of the Participant's separation from service the Participant is a "specified employee" (as such term is defined in section 409A(2)(B)(i) of the Code and its corresponding regulations) as determined by the Company (or any successor thereto) in its sole discretion in accordance with its specified employee determination policy, then all distributions to the Participant pursuant to this Grant shall be postponed for a period of six (6) months following the Participant's separation from service from the Employer. The postponed amounts shall be distributed to the Participant in a lump sum within thirty (30) days after the date that is six (6) months following the Participant's separation from service from the Employer. If the Participant dies during such six (6)-month period and prior to the distribution of the postponed amounts hereunder, the amounts delayed on account of section 409A of the Code shall be distributed to the personal representative of the Participant's estate within sixty (60) days after the date of the Participant's death, and any amounts not delayed shall be distributed to the personal representative of the Participant's estate in accordance with the terms of this Grant.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Grant, effective as of the Date of Grant.

AMERICAN WATER WORKS COMPANY, INC.

/s/ Susan N. Story

By: Susan N. Story

Its: President and CEO

**EXHIBIT A**

**SUBSEQUENT DEFERRAL ELECTION FORM**

**PART A. TIME OF DISTRIBUTION**

I, \_\_\_\_\_, (the "Participant") hereby irrevocably elect to have all of the Stock Units, plus corresponding dividend equivalents, (the "Deferred Units") granted to me pursuant to the Stock Unit Grant, dated as of May 10, 2019, (the "Grant") under the American Water Works Company, Inc. 2017 Omnibus Equity Compensation Plan (the "Plan") that would have been distributed by American Water Works Company, Inc. to me on the Specified Date (as defined in the Grant), instead be distributed to me on the deferred date designated below (the "Deferred Date"), which date must be at least five (5) years later than the Specified Date, and this election is at least twelve (12) months prior to the Specified Date (to make this deferral election you must defer all of the Stock Units, plus corresponding dividend equivalents, granted to you pursuant the Grant, meaning there is no partial deferral):

<b>Number of Stock Units, and Dividend Equivalents, to be Further Deferred (All Must Be Deferred)</b>	<b>Original Specified Date (Election Must Be Made at Least 12 Months Prior to the Specified Date)</b>	<b>Deferred Date (Must be a date that is at least 5 years later than the Original Specified Date)</b>
100%	August 14, 2020	

**PART B. ACKNOWLEDGMENT**

I understand and expressly agree that (i) the Deferred Date for the Deferred Units shall be the date I specified in Part A above (which is a date that is at least five (5) years later than the original Specified Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event that the Separation from Service Date (as defined in the Grant) or the Change of Control Date (as defined in the Grant) occurs prior to the Deferred Date. I also understand and expressly agree that this deferral election is irrevocable, is being made at least twelve (12) months prior to the original Specified Date, and shall not take effect until twelve (12) months after the date on which I make this election. I further understand and agree that the terms and conditions of the Grant and the Plan are hereby incorporated into this form. Lastly, I understand and agree that this deferral election applies to 100% of the Stock Units, and corresponding dividend equivalents, granted to me pursuant to the Grant.

**PARTICIPANT SIGNATURE**

Participant: \_\_\_\_\_ Date: \_\_\_\_\_

Receipt Acknowledged:

By: \_\_\_\_\_

Title: \_\_\_\_\_ Date: \_\_\_\_\_

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,  
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, Susan N. Story, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2019

By: /s/ SUSAN N. STORY

Susan N. Story

President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

(Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended,  
as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002)

I, M. Susan Hardwick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Water Works Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2019

By: /s/ M. SUSAN HARDWICK

\_\_\_\_\_  
M. Susan Hardwick

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

AMERICAN WATER WORKS COMPANY, INC.  
CERTIFICATION  
PURSUANT TO U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Susan N. Story, President and Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ SUSAN N. STORY

Susan N. Story  
President and Chief Executive Officer  
(Principal Executive Officer)  
July 31, 2019

AMERICAN WATER WORKS COMPANY, INC.  
CERTIFICATION  
PURSUANT TO U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of American Water Works Company, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M. Susan Hardwick, Executive Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ M. SUSAN HARDWICK

M. Susan Hardwick

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

July 31, 2019