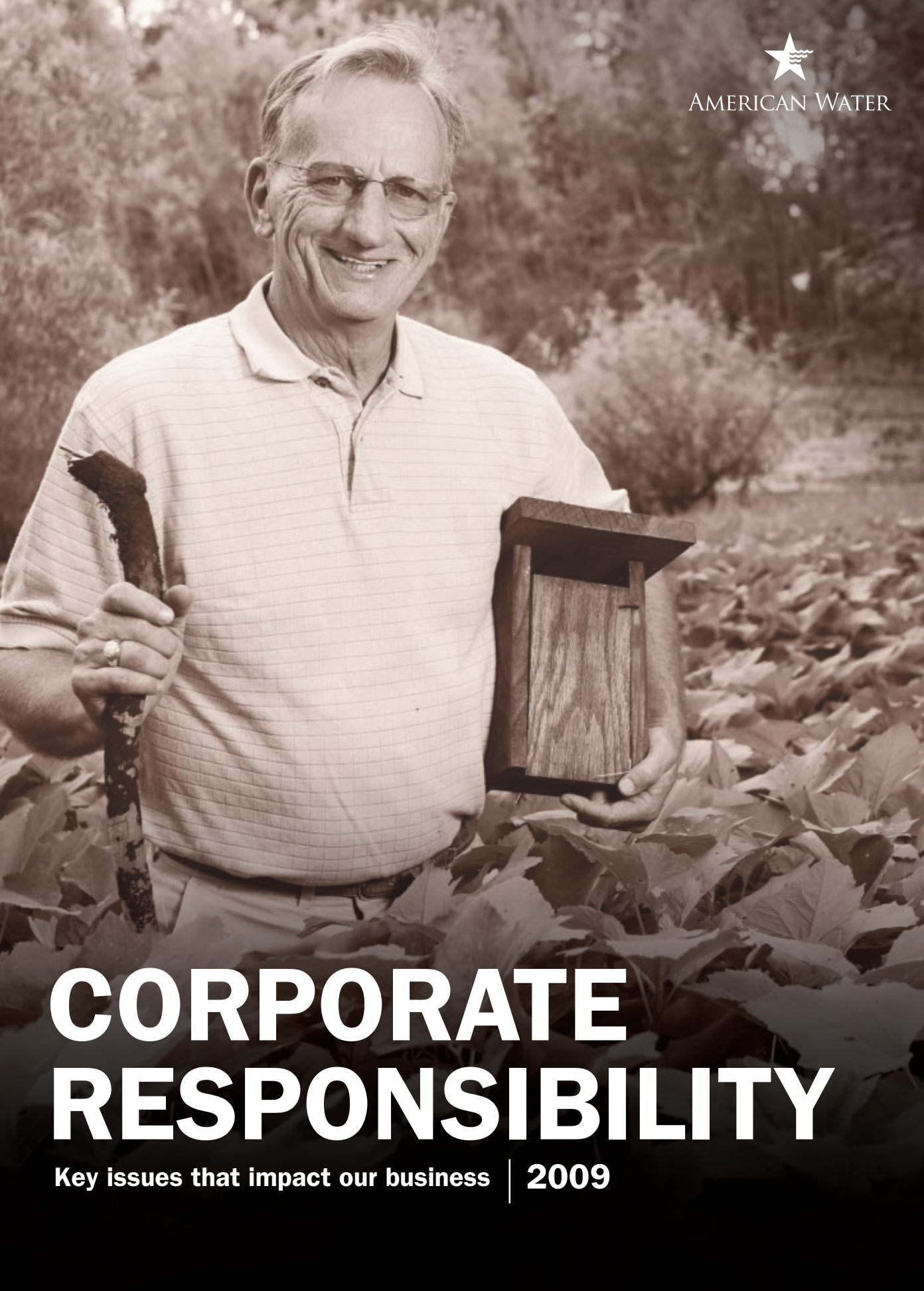


AMERICAN WATER

CORPORATE RESPONSIBILITY

Key issues that impact our business | 2009

2009 was a year of significant economic challenges for the global business community, and a time of transformation and growth for American Water. From our new status as a fully independent, publicly-traded company on the New York Stock Exchange, to the U.S. Environmental Protection Agency's approval of our goal to reduce greenhouse gas emissions intensity by more than 15 percent in less than ten years, we continued on a journey to position ourselves for the future.

We created this summary to provide information about our approach to corporate responsibility, as well as background on three strategic issue areas that we feel are significant for our business. We want to be transparent about the opportunities and challenges we face from a broader citizenship perspective, and what we are doing to address them.

AMERICAN WATER

COVER: Dillard Griffin, Kentucky American Water Manager of Field Operations/Production, photographed on the grounds of Kentucky American Water's Richmond Road water treatment plant in Lexington. Dillard has spearheaded many environmental initiatives for the company, and has been an inspiration and mentor to countless American Water professionals. He is a member of the Kentucky Department of Environmental Protection for Natural Resources board of advisors, the American Water Works Association's Kentucky-Tennessee Chapter, and has been involved with the local chapter of the Audubon Society for approximately three decades. 2010 marks Dillard's 40th year with Kentucky American Water, and he continues to make a difference for our communities and the environment.

CHALLENGES TO THE WATER INDUSTRY

In the U.S., there is concern over the sustainability of the nation's water supply as a result of droughts, threatened supplies and continued population growth. Although some regions are already experiencing water scarcity, increasing water demand is a challenge facing the entire nation.

Along with the availability of water, affordability also poses a significant challenge with the costs of providing water on the rise. Estimates show that local governments will spend $110 billion annually beginning in 2010 for water services, which does not take into account the effect of climate change on water resources.

1 CHALLENGE: CLIMATE ADAPTATION

For U.S. water providers, including American Water, understanding and addressing the impact of climate change has the potential to create real challenges. Fulfilling our business objectives may require finding solutions to maintain adequate levels of water supply for communities; ensuring high standards of water quality in the face of droughts or increased flooding; and balancing the need for infrastructure improvements while keeping this vital resource as affordable as possible. Below we outline some of the steps we are taking to understand, anticipate and mitigate the impacts that climate change may have on our business.

In 2009, the U.S. Environmental Protection Agency accepted our goal to reduce greenhouse gas emissions intensity by more than 15 percent in less than 10 years through our ongoing voluntary partnership.

DEALING WITH CLIMATE VARIABILITY

American Water has dealt with the effects of changing weather patterns on water supplies every day since our founding nearly 125 years ago. Our challenge has been to develop methods of compensating for climate-induced weather variability.

Comprehensive planning studies (CPS) are our primary means for evaluating asset condition and performance, projecting future needs, and identifying capital projects and/or programs which may be needed so that a water infrastructure system is able to meet required levels of service.

A CPS is an engineering report, or master plan, that assesses each component of the system and identifies and prioritizes capital improvements needed to help ensure a reliable level of service through the planning horizon (typically a 15-20 year timeframe).

American Water's water and wastewater systems are evaluated via this program on an as needed basis, but typically every 5-10 years. Projects that have been developed through the planning study process will have undergone a thorough analysis of alternatives.

Other tools supplement this process and are designed to deal with more severe events that may be a consequence of climate change. In the case of water supply, more extreme droughts are addressed by Water Conservation Plans or Drought Response Plans that are designed to impose increasingly more stringent curtailment of usage. For extreme flooding events, Emergency Response Plans are developed to provide action plans for protecting facilities.

HELPING TO ENSURE SUSTAINABLE SUPPLY

American Water is exploring ways to maintain reliable water service while conserving existing sources. The following section looks at ways in which we, and the water industry as a whole, can help ensure that the public continues to receive an adequate supply of high-quality drinking water.

Conserving What Exists

One of the most fundamental ways to offset the effects of climate variability on the nation's water supply is to promote wise water use and develop new water conservation strategies. Among the most basic is improved leak detection and repair. We are currently testing various leak detection technologies in numerous states, and to date, the program has saved over 200 million gallons of water in just one pilot study alone.

Investing in Infrastructure

The country's water infrastructure is aging, with many pipes approaching or past the end of their useful life. Additional funds are necessary to adequately maintain, repair and replace the nation's network of pipes. We invest between $800 million to one billion dollars annually on infrastructure improvements.

Developing Alternative Supplies

Climate change will result in some areas of the country experiencing increased pressure on water supplies. These areas will need to find new sources of water when conservation alone cannot bring supply and demand into balance. Desalination and water reuse are two rapidly developing solutions.

We operate the country's largest seawater desalination plant in Tampa, Florida, where we are helping to ensure the safe and environmentally sound conversion of seawater to drinking water. We also recycle nearly four billion gallons of water annually—and produce reuse water at more than 80 facilities.

CAPITAL EXPENDITURES 2007–2009

in thousands

	For the Years Ended December 31		
	2009	2008	2007
Transmission and distribution	$309,851	$399,597	$296,057
Treatment and pumping	125,031	186,480	166,765
Services, meter and fire hydrants	153,455	224,089	179,933
General structures and equipment	99,280	71,146	32,336
Sources of supply	44,127	52,392	35,135
Wastewater	53,521	75,102	40,584
TOTAL	**$785,265**	**$1,008,806**	**$750,810**

CLIMATE LEADERS
U.S. Environmental Protection Agency

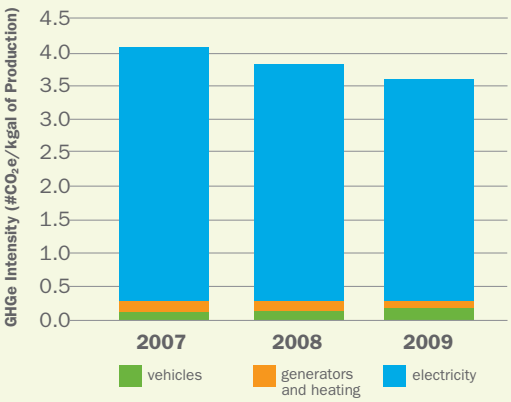
Environmental Management Corporation, an American Water subsidiary, designed, built, operates and maintains a .3 MGD anaerobic wastewater treatment system and biogas recovery system under an agreement with Tejas Industries in Hereford, Texas. The system provides an average of 100,000 cubic feet of biogas per day, replacing 15 percent of Tejas' natural gas demand.

MINIMIZING WATER UTILITY GREENHOUSE GAS EMISSIONS

Global warming poses a business challenge to water utilities. However, utilities also contribute to the global warming problem through their energy use. New drinking water quality regulations and treatment challenges are increasingly requiring advanced treatment systems, which tend to be more energy intensive than conventional technologies.

We proactively seek to implement measures that increase efficiency, conserve energy and water, and reduce waste. In addition to maintaining a regular schedule of assessments and energy audits to ensure our facilities are compliant, we are taking steps to ensure a more sustainable approach to the use of resources.

AMERICAN WATER'S GREENHOUSE GAS INTENSITIES 2007-2009



In 2009, the intensity of American Water's greenhouse gas emissions (GHGe) was reduced 4.3% to 3.64 lbs. of carbon dioxide equivalents per thousand gallons of water produced. The reduction in emissions was attributed to the reduced volume of water delivered (5.2% compared to 2008). We believe that our GHGe intensity went down because, with less total production, we didn't have to run as many pumps. Consequently, we decreased the use of our less efficient pumps resulting in a lower GHGe intensity.

Increasing Pump Efficiency

We treat and deliver more than one billion gallons of water every day. Our research indicates that approximately 97 percent of our electricity consumption and 90 percent of our greenhouse gas emissions are the products of the water delivery process, which includes pumping water from its source to treatment and storage facilities and on to customers. We see improved pump efficiency as a major opportunity to decrease our carbon footprint. Once testing is complete in 2010, we will begin implementation of our pump replacement and refurbishing initiative in 2011.

Improving Fleet Efficiency

About four percent of our greenhouse gas emissions come from our vehicle fleet, which is used to operate and maintain our water and wastewater systems. Currently, we are piloting 32 hybrid vehicles and two natural gas powered vehicles. We also initiated a "no idle" policy, which will decrease total fleet greenhouse gas emissions.

INCREASING OUR GREEN POWER

In 2005, we constructed what was, at the time, the largest ground-mounted solar array east of the Rocky Mountains at a New Jersey American Water treatment plant. We have since expanded that system and installed an additional solar array at an adjacent facility. In 2009, these two facilities generated 861,989 kilowatt-hours of green power and saved nearly one million pounds of CO_2 emissions from being released. In addition, one hundred percent of the 1,374,031 kilowatt-hours of energy used annually at our Yardley, Pennsylvania plant comes from wind power, which, in 2009, saved nearly 1.6 million pounds of CO_2 emissions from being released into the atmosphere.

CHALLENGE: WORKING WITH COMMUNITIES TO MEET WATER NEEDS

In the United States, water services are so reliable that we often overlook the complex treatment processes, highly technical science, and infrastructure investments required to ensure an adequate supply of high-quality water. Today there is a greater awareness that access to clean and dependable water is not a given. As a company, our challenge is to help ensure communities have access to high-quality and reliable water service at a fair cost, while balancing the need to maintain and upgrade water system infrastructure and meet water quality standards.

WHAT DO REGULATED RATES MEAN?

State regulators determine how much individual residents, commercial businesses and industrial customers will pay for water and/or wastewater services through a legal proceeding known as a "general rate case." The rate-setting process is designed to protect customer interests while allowing water utilities the opportunity to recover reasonable operating expenses and earn a fair return on the capital invested to provide reliable, quality water and wastewater services.

As a company, we continue to proactively inform customers about the investments we make to help ensure quality service. Through our website, bill inserts and the media, we are as equally committed to the prudency of our investments as we are to explaining their necessity to those they benefit.

We also continue to inform customers about the programs and resources we provide to help them lower their water usage and costs. In addition to conservation education materials and events, our state subsidiaries offer a variety of programs where approved by state public utility commissions. These include aid programs to assist low-income households with water and wastewater bills via one-time emergency grants and/or discount payment programs. Rebates for water-saving appliances and high-efficiency toilets, home and business water audits, and free water-saving devices are also available—again where approved by state utility commissions—to help customers make their homes more water efficient and reduce their water costs.

We recycle nearly four billion gallons of water annually and produce reuse water at more than 80 facilities.

DEVELOPING SOLUTIONS FOR NEW COMMUNITIES

Designing and maintaining water and wastewater systems for communities begins with a clear understanding of the community and the impact and cost of potential solutions. A key input of our planning is engagement with community members, government agencies and local organizations to understand their needs and how water resources are used. We work with stakeholders to look at all of their options for water delivery and treatment and assess what is most cost effective, sustainable and environmentally friendly.

These options may include:

Consolidation of Local Water Systems

At times, it makes sense to develop water resources and systems at a regional level rather than for each individual community. Often, this can be as simple as linking a number of small communities to a common water system. By centralizing water service facilities, community members benefit from efficient use of water resources, better service and quality, and lower costs.

Sharing Expertise

Utility commissions periodically request our expertise to purchase small, unsustainable water systems that have fallen into disrepair and bring them back into regulatory compliance. Municipalities and cities have called directly on our experience with design, construction and operation of water systems and established operations and maintenance contracts, to address compliance issues or respond to consent orders. For example, in Pennsylvania, we took over a troubled water system with a history of water outages, frequent main breaks and service reliability issues and are now providing a long-term solution for customers of the water system. The system had been under a Department of Environmental Protection (DEP) consent order since July 2008 over service reliability issues.

3

CHALLENGE: POLICY ENGAGEMENT AND ADVOCACY

We believe it is our responsibility to utilize our experience, scientific knowledge, and technological expertise to help policymakers and regulatory authorities make informed, balanced and fact-based decisions on water industry policies and legislation.

Engaging in public policy debates is also one of the key ways that we advance our corporate responsibility objectives. We take an active role to advocate effective management of water resources, especially in the areas of sustainability, water conservation, water quality and reuse, and infrastructure investment.

One of our goals is to be an educational resource for lawmakers in the areas of water and wastewater management, and to ensure that those who fund infrastructure improvement projects are well informed on what it takes to maintain healthy water and wastewater systems. In July 2009, we sponsored a "Water Infrastructure Forum" in partnership with the Congressional Water Caucus. A second forum was held in November 2009 to educate and inform members about the Private Activity Bond bill.

We believe that raising awareness of the state of the nation's water and wastewater infrastructure and potential avenues to address those challenges results in more engaged community leaders and informed decision makers.

Engaging in public policy is also one of the key ways that we advance our corporate responsibility objectives.

American Water is supporting legislation to remove water and wastewater projects from under the "cap" or limit for private activity bonds. As there is a limit on the amount of tax-exempt financing that is available, municipalities must often make difficult choices between funding water system improvements and supporting other community priorities. Removing water and wastewater projects from under this "cap" will make more private capital available for water and wastewater infrastructure improvement projects.

It has been a time of fast-paced change, and our commitment to being a good corporate citizen remains steadfast. In 2009, American Water's management and oversight of corporate responsibility (CR) continued to develop, improving integration of CR-related practices and increasing accountability for performance across the company. Recognizing the need to engage more formally with our stakeholders, we initiated the development of a stakeholder engagement strategy to proactively address common areas of concern. This effort will continue in 2010, as we deepen our engagement with a range of stakeholders on a variety of issues.

To learn more about American Water and our commitment to corporate responsibility, visit www.amwater.com/corporateresponsibility

AMERICAN WATER

www.amwater.com • NYSE: AWK

American Water Works Company, Inc., together with its subsidiaries, is referred to as American Water.