

<DOCUMENT>
<TYPE>10-Q
<SEQUENCE>1
<FILENAME>q10302.txt
<TEXT>

CONFORMED COPY

Page 1 of 22

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 March 31, 2002

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 1-3437-2

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware 51-0063696

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

1025 Laurel Oak Road, Voorhees, New Jersey 08043

 (Address of principal executive offices) (Zip Code)

(856) 346-8200

 (Registrant's telephone number, including area code)

Not Applicable

 (Former name, former address and former fiscal year, if changed since last report)

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

 At May 1, 2002, the number of shares of common stock, \$1.25 par value, outstanding was 100,032,346 shares.

<PAGE>

Page 2

FORM 10-Q

PART I FINANCIAL INFORMATION

 Item 1. Financial Statements

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

 Consolidated Statements of Income and Comprehensive Income
 and of Retained Earnings (Unaudited)
 (In thousands, except per share amounts)

<TABLE>

	Three Months Ended	
	March 31,	
	2002	2001
	-----	-----
	<c>	<c>
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$384,740	\$316,427
	-----	-----
Operating expenses		
Operation and maintenance	209,252	150,823

Depreciation and amortization	55,027	44,360	
General taxes	34,758	33,311	
	-----	-----	
Total operating expenses	299,037	228,494	
	-----	-----	
Operating income	85,703	87,933	
	-----	-----	
Other income (deductions)			
Interest	(57,412)	(48,597)	
Allowance for other funds used during construction	1,620	1,081	
Allowance for borrowed funds used during construction	1,026	979	
Amortization of debt expense	(673)	(678)	
Preferred dividends of subsidiaries	(713)	(783)	
Merger expenses	(947)	-	
Other, net	(934)	(671)	
	-----	-----	
Total other income (deductions)	(58,033)	(48,669)	
	-----	-----	
Income before income taxes	27,670	39,264	
Provision for income taxes	12,457	15,803	
	-----	-----	
Income before cumulative effect of change in accounting principle	15,213	23,461	
Cumulative effect of change in accounting principle	2,679	-	
	-----	-----	
Net income	17,892	23,461	
Dividends on preferred stocks	146	146	
	-----	-----	
Net income to common stock	17,746	23,315	
	-----	-----	

<PAGE>

Page 3

FORM 10-Q

Three Months Ended
 March 31,
 2002 2001

	-----	-----	
<s>	<c>	<c>	
Other comprehensive loss, net of tax			
Unrealized loss on securities	(2,926)	(1,994)	

Foreign currency translation adjustment 708 -

Comprehensive income \$ 15,528 \$ 21,321

Average shares of basic common stock outstanding 100,027 98,873

Earnings per average common share outstanding

Income before cumulative effect of change
in accounting principle \$ 0.15 \$ 0.24

Cumulative effect of change in accounting
principle \$ 0.03 -

Basic \$ 0.18 \$ 0.24

Income before cumulative effect of change
in accounting principle \$ 0.15 \$ 0.24

Cumulative effect of change in accounting
principle \$ 0.03 -

Diluted \$ 0.18 \$ 0.24

CONSOLIDATED RETAINED EARNINGS

Balance at January 1 \$1,137,772 \$1,069,486

Add - net income 17,892 23,461

Preferred stock redemption premium (25) -

Gain on treasury stock - 338

1,155,639 1,093,285

Deduct - dividends paid

Preferred stock 32 32

Preference stock 114 114

Common stock - \$.245 per share in 2002;
\$.235 per share in 2001 24,505 23,212

24,651 23,358

Balance at March 31 \$1,130,988 \$1,069,927 285.305(o)
 =====

The accompanying information and notes are an integral part of these financial statements.

</TABLE>

<PAGE> Page 4 FORM 10-Q

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

 Consolidated Balance Sheet (Unaudited)
 (In thousands)

<TABLE>

	March 31, 2002	December 31, 2001
	-----	-----
	<c>	<c>
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less		
accumulated depreciation	\$ 6,152,285	\$ 5,458,909
Utility plant acquisition adjustments, net	215,338	68,916
Non-utility property, net of accumulated		
depreciation	95,874	94,149
	-----	-----
Total property, plant and equipment	6,463,497	5,621,974
	-----	-----
Current assets		
Cash and cash equivalents	15,511	19,691
Customer accounts receivable	164,048	153,142
Allowance for uncollectible accounts	(8,412)	(7,660)
Unbilled revenues	90,966	86,065
Miscellaneous receivables	20,335	16,483
Materials and supplies	32,861	32,281
Deferred vacation pay	13,935	11,422
Restricted funds	224	224
Other	19,216	18,940
	-----	-----
Total current assets	348,684	330,588
	-----	-----
Regulatory and other long-term assets		

Regulatory asset - income taxes

recoverable through rates	219,293	217,330
Other investments	37,881	39,956
Debt and preferred stock expense	48,183	45,882
Deferred pension expense	33,724	30,712
Deferred postretirement benefit expense	9,115	9,318
Deferred security costs	11,609	7,058
Deferred business services project expenses	40,109	36,311
Deferred tank painting costs	16,225	16,585
Restricted funds	9,397	8,570
Goodwill	285,326	136,488
Intangible assets	21,778	23,400
Other	98,262	82,927
	-----	-----
Total regulatory and other long-term assets	830,902	654,537
	-----	-----
TOTAL ASSETS	\$ 7,643,083	\$ 6,607,099
	=====	=====

<PAGE>

Page 5

FORM 10-Q

March 31,	December 31,
2002	2001
-----	-----

<s>

<c>

<c>

CAPITALIZATION AND LIABILITIES

Capitalization

Common stockholders' equity	\$ 1,748,674	\$ 1,758,018
Preferred stocks without mandatory redemption requirements	-	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements	30,099	30,474
Preferred stocks of subsidiaries without mandatory redemption requirements	7,268	7,268
Long-term debt		
American Water Works Company, Inc.	297,000	297,000
Subsidiaries	3,221,601	2,253,019
	-----	-----
Total capitalization	5,304,642	4,357,452

Current liabilities

Short-term debt	416,596	414,083
Current portion of long-term debt	170,314	166,087
Accounts payable	45,657	67,996
Taxes accrued, including federal income	42,890	21,756
Interest accrued	59,466	43,015
Accrued vacation pay	14,086	11,577
Other	119,065	100,220

Total current liabilities 868,074 824,734

Regulatory and other long-term liabilities

Advances for construction	262,141	230,801
Deferred income taxes	627,077	624,449
Deferred investment tax credits	38,272	38,633
Accrued pension expense	68,636	62,355
Accrued postretirement benefit expense	19,168	13,808
Other	40,329	41,007

Total regulatory and other long-term liabilities 1,055,623 1,011,053

Contributions in aid of construction 414,744 413,860

Commitments and contingencies -- --

TOTAL CAPITALIZATION AND LIABILITIES \$ 7,643,083 \$ 6,607,099

The accompanying information and notes are an integral part of these financial statements.

</TABLE>

Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

<TABLE>

	Three Months Ended	
	March 31,	
	2002	2001
	-----	-----
<s>	<c>	<c>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 17,892	\$23,461
Adjustments		
Depreciation and amortization	55,027	44,360
Cumulative effect of change in accounting principle (2,679)	-	-
Provision for deferred income taxes	4,288	3,165
Provision for losses on accounts receivable	2,840	1,943
Allowance for other funds used during construction	(1,620)	(1,081)
Employee benefit expenses greater than funding	7,441	3,876
Employee stock plan expenses	813	1,212
Deferred regulatory costs	(9,247)	(9,969)
Amortization of deferred charges	4,431	3,684
Other, net	(11,890)	(8,735)
Changes in assets and liabilities, net of effects from acquisitions		
Accounts receivable	(2,995)	16,081
Unbilled revenues	(154)	2,370
Other current assets	(61)	(350)
Accounts payable	(24,077)	(18,164)
Taxes accrued, including federal income	19,870	23,808
Interest accrued	16,442	5,143
Other current liabilities	16,935	(4,486)
	-----	-----
Net cash from operating activities	93,256	86,318
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(65,242)	(62,523)
Allowance for other funds used during construction	1,620	1,081
Acquisitions	(883,064)	(48,575)
Proceeds from the sale of assets	197	410
Removal costs from property, plant and		

equipment retirements	(1,394)	(1,880)
Restricted funds	(827)	(247)
	-----	-----
Net cash used in investing activities	(948,710)	(111,734)
	-----	-----

<PAGE>

Page 7

FORM 10-Q

Three Months Ended

	March 31,	
	2002	2001
	-----	-----
<s>	<c>	<c>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from long-term debt	\$926,097	\$143,788
Proceeds from common stock	691	9,269
Purchase of common stock for treasury	(36)	(63)
Net borrowings (repayments) under short-term debt agreements	2,513	(60,138)
Advances and contributions for construction, net of refunds	5,490	6,506
Debt issuance costs	(3,021)	(780)
Repayment of long-term debt	(43,736)	(57,828)
Redemption of preferred stocks	(12,073)	(319)
Dividends paid	(24,651)	(23,358)
	-----	-----
Net cash from financing activities	851,274	17,077
	-----	-----
Net decrease in cash and cash equivalents	(4,180)	(8,339)
Cash and cash equivalents at January 1	19,691	28,571
	-----	-----

Cash and cash equivalents at March 31	\$15,511	\$20,232	285.305(o)
=====	=====		

Common stock placed into treasury in connection with the Employees Stock Ownership Plan, the Savings Plan for Employees, and 2000 Stock Award and Incentive Plan totaled \$983 in 2002 and \$890 in 2001.

The accompanying information and notes are an integral part of these financial statements.

</TABLE>

<PAGE> Page 8 FORM 10-Q

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Information Accompanying Financial Statements (Unaudited)
(In thousands, except share and per share amounts)

March 31,	December 31,
2002	2001
-----	-----

Preferred stocks without mandatory redemption requirements
(All shares redeemed March 1, 2002)
Cumulative preferred stock - \$25 par value
5% series (one-tenth of a vote per share)

- 101,777 shares outstanding in 2001	\$	--	\$	2,544
Cumulative preference stock - \$25 par value				
Authorized - 750,000 shares				
5% series (non-voting) - 365,158 shares				
outstanding in 2001		--		9,129
Cumulative preferential stock - \$35 par value				
Authorized - 3,000,000 shares				
(one-tenth of a vote per share)-				
no outstanding shares		--		--
	-----		-----	
	\$	--	\$	11,673
	=====		=====	

Common stockholders' equity

Common stock - \$1.25 par value					
Authorized - 300,000,000 shares					
Issued - 100,048,457 shares in 2002;					
100,016,273 shares in 2001		\$	125,060	\$	125,020
Paid-in capital		489,568		489,868	
Retained earnings		1,130,988		1,137,772	
Accumulated other comprehensive income			3,740		5,958
Unearned compensation		--		(539)	
Treasury stock at cost - 16,111 shares in					
2002; 1,891 shares in 2001		(682)		(61)	
	-----		-----		
	\$	1,748,674	\$	1,758,018	
	=====		=====		

At March 31, 2002, common shares reserved for issuance in connection with the Company's stock plans were 80,865,863 shares for the Stockholder Rights Plan, 1,641,852 shares for the Dividend Reinvestment and Stock Purchase Plan, 565,493 shares for the Employees' Stock Ownership Plan and 532,381 shares for the Savings Plan for Employees. Up to 4,234,367 shares of common stock may be issued under the 2000 Stock Award and Incentive Plan, of which approximately 3,300,000 shares were available to be granted at March 31, 2002.

<PAGE>

Page 9

FORM 10-Q

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 -- Financial Statement Presentation

The information presented in this Form 10-Q is unaudited. In the opinion of management the information reported reflects all adjustments, consisting of both normal recurring as well as any non-recurring adjustments, which were necessary to a fair statement of the results for the periods reported. Certain reclassifications have been made to conform previously reported data to the current presentation.

NOTE 2 -- Merger Agreement with RWE

On September 16, 2001 the Company entered into a merger agreement with RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH, which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. Under the terms of the merger agreement RWE will purchase all the outstanding shares of American Water Works Company common stock at a price of \$46.00 per share in cash.

RWE is a global multi-utility company that does business through its subsidiaries and affiliates in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling. Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water Plc, RWE's London-based international water services business. American Water will manage the joint operations in North, Central and South America.

The transaction was approved at a special meeting of the stockholders of American Water Works Company on January 17, 2002. Before the transaction can be completed, state and federal regulatory approvals are required. As of the end of January 2002, all of the applications for approval were filed where required by state regulatory authorities. The states where applications for approval have been filed are Arizona, California, Hawaii, Illinois, Kentucky, Maryland, New Jersey, New Mexico, New York, Pennsylvania, Tennessee, Virginia and West Virginia. The states of

Georgia and Michigan do not regulate the Company's utility operations, and the states of Indiana, Iowa, Missouri, Ohio and Texas have determined they have no statutory jurisdiction over the RWE transaction. Regulatory approval has not been requested in Connecticut, Massachusetts and New Hampshire since these operations have been sold. As of April 1, 2002 the Company is still awaiting approval in ten states. Those states are Arizona, California, Illinois, Kentucky, Maryland, New Jersey, New Mexico, New York, Pennsylvania and West Virginia. The Company anticipates making a Hart-Scott-Rodino filing with the Federal Trade Commission in the second quarter of 2002. As a result of the time required to complete the approval process by the various regulatory agencies, the Company does not anticipate completion of the merger until the first half of 2003. One condition of the agreement requires the Company to redeem its publicly traded preferred stock prior to closing. That redemption was completed on March 1, 2002.

<PAGE>

Page 10

FORM 10-Q

During the first three months of 2002 the Company recorded a charge of \$0.9 million, reflecting costs incurred in connection with the merger. The merger related costs have been reported on a separate line in the consolidated statement of income and comprehensive income. No tax benefit was recognized for these legal fees because it is not probable that these costs will be deductible for tax purposes.

On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp., executed a Note Purchase Agreement with RWE for \$1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes were purchased at par by RWE and mature on November 6, 2002.

The Company and its subsidiaries used the proceeds from the sale of the notes to acquire the common stock of Azurix North America and Azurix Industrials, to fund the acquisition of the water and wastewater assets of Citizens Communications Company and to reduce outstanding short-term debt. Closing occurred in two tranches with one on November 6, 2001 in the amount of \$298.5 million and another on January 14, 2002 in the amount of \$900 million.

NOTE 3 -- Acquisition of Water and Wastewater Assets of Citizens Communications Company

On January 15, 2002 the Company and its subsidiaries completed their

acquisition of all of the water and wastewater assets of Citizens Communications Company (NYSE:CZN) for \$859 million in cash and \$120 million of assumed liabilities. The purchase price is subject to adjustment upon the completion of an audited closing statement of net assets. The acquired operations provide water and wastewater service to approximately 284,000 regulated customers in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania. Citizens also had developed a water supply project in Illinois with the possibility of additional wholesale customers along the pipeline.

The Company is in the process of making the determinations as to the amounts to be assigned to intangible assets and goodwill, and thus has not finalized the allocation of the purchase price. At March 31, 2002, \$137.9 million has been recorded as goodwill on a preliminary basis in connection with this transaction.

The purchase price for these assets was consistent with the multiples paid in other similar transactions. Regulatory and strategic considerations contributed to a purchase price that resulted in the recognition of goodwill. The assets reside in progressive regulatory environments where the Company currently operates and broadens the geographic diversity of the Company's total operations. The inclusion of the acquired customers in California and Arizona increases the Company's customers in the Western United States to 10% of its total customer base. With the acquisition, the Company becomes one of the principal water purveyors in the Phoenix area and strengthens its competitive position for the privatization opportunities in this rapidly growing region and the other states included in the acquisition footprint.

The unaudited pro forma results listed below were prepared as if the acquisition occurred on January 1, 2001 and include the historical results of the Company and of the acquired operations. The unaudited pro forma information is not necessarily indicative of the results of operations

<PAGE> Page 11 FORM 10-Q

that might have occurred had the acquisition actually taken place on the date indicated, or of future results of operations of the combined entities:

Quarter ended March 31,	2002	2001
Revenues	\$389,564	\$340,300
Income before cumulative effect of change		

in accounting principle	13,767	18,826	285.305(o)
Net income	16,446	18,826	
Earnings per average common share outstanding			
Income before cumulative effect of change in accounting principle	\$.13	\$.19	
Cumulative effect of change in accounting principle	\$.03	\$ -	
Basic	\$.16	\$.19	
Income before cumulative effect of change in accounting principle	\$.13	\$.19	
Cumulative effect of change in accounting principle	\$.03	\$ -	
Diluted	\$.16	\$.19	

NOTE 4 -- Segment Information

The following table presents information about the Company's reportable segments.

Regulated
Utility
Services

Unregulated
Services

Other
Items

Consolidated

Three months ended
March 31, 2002

Revenues from external
customers

\$338,361

\$46,379

\$ -

\$384,740

Intersegment revenues

1,558

(1,558)

-

Income before
cumulative effect
of change in
accounting principle

25,350

(2,060)

(8,077)

15,213

Net income

28,029

(2,060)

(8,077)

17,892

Total assets

7,346,079

318,454
(21,450)
7,643,083

Three months ended
March 31, 2001

Revenues from external
customers

\$306,142

\$10,285

\$ -

\$316,427

Intersegment revenues

1,350

(1,350)

-

Income before
cumulative effect
of change in
accounting principle

30,220

(741)

(6,018)

23,461
Net income
30,220
 (741)
(6,018)
23,461
Total assets
6,084,757
 98,687
 6,494
6,189,938

<PAGE>

Page 12

FORM 10-Q

The "other items" include corporate costs of American Water Works Company and intersegment eliminations.

NOTE 5 -- New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), collectively referred to as the "Standards." SFAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, "Business Combinations." The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provided specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived

intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives. The Company adopted the provisions of the Standards on January 1, 2002.

The Standards require the excess of the fair values of acquired net assets over cost recorded in the statement of financial position to be recognized as the effect of a change in accounting principle as of the date SFAS 141 is initially applied in its entirety. In compliance with this transition requirement the Company recognized a \$2.7 million gain on January 1, 2002.

The Company is in the process of making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units. The Company is no longer recording \$1.7 million of annual tax deductible amortization relating to its existing goodwill associated with the 1999 acquisition of its joint venture partner's interest in AmericanAnglian Environmental Technologies.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment and, in transition, this step must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete the first step. The Company expects to complete that first step of the goodwill impairment test during the second quarter of 2002. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of the Company's fiscal year. The Company has not yet determined what effect these impairment tests will

<PAGE>

Page 13

FORM 10-Q

have on the Company's earnings and financial position.

In June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial

obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April of 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect that the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

NOTE 6 -- Subsequent Events

SALE OF INVESTMENT IN ITC HOLDING COMPANY

On April 2, 2002 the Company tendered approximately 2.2 million shares of the 3.5 million shares of ITC Holding Company's common stock it acquired as part of the acquisition of National Enterprises Inc. The sale, which was carried out through ITC Holding Company's repurchase program, resulted in proceeds of \$26.2 million, including a \$13 million after-tax gain which will be reflected in second quarter 2002 results.

DIVESTITURE OF NEW ENGLAND OPERATIONS

Kelda Group plc and the Company jointly announced on August 30, 2001 that

they had reached an agreement whereby Kelda's Aquarion Company would acquire the Company's New England operations. On April 25, 2002 the Company completed the divestiture and received its initial cash payment of

<PAGE>

Page 14

FORM 10-Q

\$120.5 million subject to the terms and conditions of the agreement. The contract calls for certain true-ups with the expected after-tax gain to amount to approximately \$20 million.

The utility operations acquired by Aquarion serve a total of 65,000 customers and had revenues of \$51 million in 2001. A finance subsidiary of the Company, which owns and leases certain assets to its affiliated operating company in Massachusetts, was also acquired by Aquarion as part of the transaction.

<PAGE>

Page 15

FORM 10-Q

PART I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The operating results of the Azurix and Citizens acquisitions have been included in the consolidated statements of income and comprehensive income since the completion of the acquisitions on November 7, 2001 and January 15, 2002, respectively.

Consolidated revenues of \$384.7 million for the quarter were 22% higher than those recorded in the first quarter of 2001. More than half of this overall revenue growth came about as a result of the acquisition of Azurix's North American water and wastewater related operations. Another significant portion of this increase in revenues came from a 13% increase in the number of customers receiving water and wastewater services from regulated subsidiaries from the first quarter of 2001 to the first quarter of 2002. This addition of 334,000 new customers increases the customer base of the Company's regulated operations to almost three million

customers.

The six state acquisition of the water and wastewater assets from Citizens accounted for 284,000 of the 334,000 new customers. Customer growth was also realized by the addition of more than 23,000 new customers in Missouri from tuck-in acquisitions around St. Louis. Smaller acquisitions and organic growth of existing distribution systems accounted for the remaining 27,000 additional customers.

Revenue from rate increases accounted for the remainder of the revenue growth. During 2002, four utility subsidiaries have received rate orders that are expected to provide \$26.3 million in additional annual revenues. The most notable of these rate increases was a \$24 million annual rate increase authorization in Pennsylvania that became effective in January of 2002. Two of the Company's subsidiaries have rate increase applications on file requesting additional annual revenues of \$13.6 million. The \$12.7 million request by the Company's Indiana subsidiary accounts for the major portion of the pending requests.

Even though revenues increased between the first quarter of 2001 and the first quarter of 2002, per customer water sales, excluding the Citizens acquisition, were five percent less quarter over quarter. This decrease is mainly a result of lower water sales to industrial customers. The decline in water sales to industrial customers that impacted financial results for the year 2001 persisted into the first quarter of 2002. Water sales of nine billion gallons for the first quarter of 2002 to this group of customers was about one billion gallons, or about 10 percent less than water sales to this same group of customers during the first quarter of 2001. These sales losses were most notable in the Midwestern and Pennsylvania operations.

<PAGE>

Page 16

FORM 10-Q

Comparison of water sales information for the first quarter of 2002 and the first quarter of 2001 showed a slight decline in water sales in Pennsylvania and New Jersey, where state mandated water use restrictions are in place. However, if drought conditions persist along the east coast of the U.S. water use restrictions will have a noticeable impact on earnings. Water sales are typically greater during June, July and August than in any other months of the year.

Revenues from the Azurix and Citizens operations are anticipated to be greater in the later months of 2002 than they were during the first quarter of 2002. Portions of the Azurix operations, such as its residual waste removal business, complete their work during the summer months when warmer weather facilitates the operation of that business. Citizens operations have historically experienced increased water sales during the summer months, and that pattern is expected to be repeated during 2002. Of the 284,000 customers associated with the Citizens acquisition, only 37,000 of those are located in Pennsylvania where water use restrictions are currently in place.

Operation and maintenance expenses (O&M) increased 39% from those in the first quarter of 2001 primarily as the result of including the expenses of the Azurix and Citizens operations. Exclusive of those acquisitions, per customer O&M of the regulated operations increased 8%. Increased production costs, especially increased purchased water costs associated with the drought on the east coast and increased sales in California, were significant factors in this increase.

The increase in depreciation expense was primarily related to the company's ongoing program of utility plant construction.

Interest expense rose by \$8.8 million, or 18%, to \$57.4 million in the first quarter of 2002. This increase is attributable to approximately \$1.2 billion of new debt associated with the Azurix and Citizens acquisitions.

Income taxes decreased in the first three months of 2002 when compared to the first three months in 2001 as a result of decreased earnings.

Net income to common stock was \$17.7 million for the first quarter of 2002 compared with \$23.3 million for the same period in 2001.

Other comprehensive loss, net of tax, was \$2.2 million in the first quarter of 2002 compared to \$2 million in the same period in 2001. The Company's other comprehensive income or loss represents the after-tax unrealized gain or loss on passive investments in publicly traded securities and foreign currency translation adjustments.

Comprehensive income was \$15.5 million in the first quarter of 2002 compared to \$21.3 million in the same period in 2001.

Earnings per share of common stock in 2002 were \$.18 compared to \$.24 in the same period in 2001. These 2002 results include a three-cent per share positive impact of adopting the new financial accounting standards relating to business combinations, as well as a six-cent per share negative impact associated with recent acquisition activity and expenses of one-cent per share related to the RWE transaction.

<PAGE>

Page 17

FORM 10-Q

Capital Resources and Liquidity

On January 14, 2002 the Company's financing subsidiary, American Water Capital Corp. closed on its second and final issue totaling \$900 million under the Note Purchase Agreement with RWE. These 4.92% notes were primarily used to fund the acquisition of the Citizens water and wastewater assets.

Two subsidiaries issued \$39.9 million in tax-exempt long-term debt during the first four months of 2002.

In the first four months of 2002, the Company invested \$13.5 million in the common stock of two subsidiaries.

A condition of the merger agreement with RWE required the Company to redeem all of its issued and outstanding shares of 5% Cumulative Preference Stock and 5% Cumulative Preferred Stock prior to closing. That redemption was completed on March 1, 2002. The 365,158 shares of 5% Cumulative Preference Stock were redeemed for \$25.00 per share and the 101,777 shares of 5% Cumulative Preferred Stock were redeemed for \$25.25 per share, in each case without interest.

On April 2, 2002 the Company tendered approximately 2.2 million shares of the 3.5 million shares of ITC Holding Company's common stock it acquired as part of the acquisition of National Enterprises Inc. The sale, which was carried out through ITC Holding Company's repurchase program, resulted in proceeds of \$26.2 million, including a \$13 million after-tax gain which will be reflected in second quarter 2002 results.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), collectively referred to as the "Standards." SFAS 141 supersedes

Accounting Principles Board Opinion (APB) No. 16, "Business Combinations."

The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provided specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year

<PAGE>

Page 18

FORM 10-Q

limitation on the amortization period of intangible assets that have finite lives. The Company adopted the provisions of the Standards on January 1, 2002.

The Standards require the excess of the fair values of acquired net assets over cost recorded in the statement of financial position to be recognized as the effect of a change in accounting principle as of the date SFAS 141 is initially applied in its entirety. In compliance with this transition requirement the Company recognized a \$2.7 million gain on January 1, 2002.

The Company is in the process of making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units. The Company is no longer recording \$1.7 million of annual tax deductible amortization relating to its existing goodwill associated with the 1999 acquisition of its joint venture partner's interest in AmericanAnglian Environmental Technologies.

SFAS 142 requires that goodwill be tested annually for impairment using a two-step process. The first step is to identify a potential impairment

and, in transition, this step must be measured as of the beginning of the fiscal year. However, a company has six months from the date of adoption to complete the first step. The Company expects to complete that first step of the goodwill impairment test during the second quarter of 2002. The second step of the goodwill impairment test measures the amount of the impairment loss (measured as of the beginning of the year of adoption), if any, and must be completed by the end of the Company's fiscal year. The Company has not yet determined what effect these impairment tests will have on the Company's earnings and financial position.

In June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on

<PAGE>

Page 19

FORM 10-Q

January 1, 2002 did not have a material effect on its results of operations and financial position.

In April of 2002 the Financial Accounting Standards Board issued Statement

of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect that the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

Forward Looking Information

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

<PAGE>

Page 20

FORM 10-Q

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Company held its annual meeting of shareholders on May 1, 2002.
- (b) Class I Directors (with a term expiring in 2005) were elected by a vote of:

	For ---	Withheld -----
J. James Barr	90,256,263	562,361
Elizabeth H. Gemmill	90,259,959	558,665
Nancy Ware Wainwright	90,229,487	589,137
Paul W. Ware	90,244,309	574,315
William S. White	90,338,173	538,316

The appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 2002 was approved by a vote of 89,055,798 for the appointment and 1,503,888 against, with 258,938 abstentions.

<PAGE>

Page 21

FORM 10-Q

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

None

B. Reports on Form 8-K

A current report on Form 8-K was filed on January 15, 2002 by the Company regarding the completion of the acquisition of Citizens Communications' water and wastewater assets.

A current report on Form 8-K was filed on January 17, 2002 by the Company regarding the stockholders approval of the September 16, 2001 agreement and plan of merger pursuant to which the company will merge with a subsidiary of RWE/AG.

A current report on Form 8-K was filed on February 8, 2002 by the Company regarding an employee communication relating to its proposed merger with a subsidiary of RWE/AG.

A current report on Form 8-K was filed on March 28, 2002 by the Company regarding an employee communication relating to its proposed merger with a subsidiary of RWE/AG.

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.

AMERICAN WATER WORKS COMPANY, INC.
(Registrant)

Date May 15, 2002 \s\ Ellen C. Wolf

Vice President and Chief Financial Officer
(Authorized Officer)

Date May 15, 2002 \s\ Robert D. Sievers

Comptroller
(Chief Accounting Officer)

</TEXT>

</DOCUMENT>

<DOCUMENT>
<TYPE>10-Q
<SEQUENCE>1
<FILENAME>form10q.txt
<TEXT>

CONFORMED COPY

Page 1 of 32

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, 2002

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 1-3437-2

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware 51-0063696

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

1025 Laurel Oak Road, Voorhees, New Jersey 08043

(Address of principal executive offices) (Zip Code)

(856) 346-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 X No

At August 1, 2002, the number of shares of common stock, \$1.25 par value, outstanding was 100,061,238 shares.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statements of Income and Comprehensive Income
and of Retained Earnings (Unaudited)
(In thousands, except per share amounts)

<TABLE>

	Three Months Ended	
	June 30,	
	2002	2001
	-----	-----
<s>	<c>	<c>
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$424,014	\$363,878
	-----	-----
Operating expenses		
Operation and maintenance	222,299	160,476
Depreciation and amortization	58,233	45,069
General taxes	35,474	32,465

Total operating expenses	-----	-----	
		316,006	238,010
Operating income	-----	-----	
		108,008	125,868
Other income (deductions)			
Interest		(57,011)	(48,544)
Allowance for other funds used during construction		1,911	1,185
Allowance for borrowed funds used during construction		1,144	1,088
Amortization of debt expense		(718)	(710)
Preferred dividends of subsidiaries		(695)	(742)
Merger expenses		(786)	-
Gain from sale of operating systems		50,709	-
Gain on sale of other investments		22,466	3,367
Loss on write down of other investments		(10,764)	-
Gain on sale of land		15,851	-
Other, net		951	(301)
Total other income (deductions)	-----	-----	
		23,058	(44,657)
Income before income taxes	-----	-----	
		131,066	81,211
Provision for income taxes		64,401	31,830
Net income	-----	-----	
		66,665	49,381
Dividends on preferred stocks		-	146
Net income to common stock	-----	-----	
		66,665	49,235

Three Months Ended
June 30,
2002 2001

<s>	-----	-----	
<c>		<c>	
Other comprehensive income (loss), net of tax			
Unrealized loss on securities		(5,536)	(2,463)

Reclassification adjustment for gain (loss)		
included in net income	5,837	(2,052)
Foreign currency translation adjustment	699	-
	-----	-----
Other comprehensive income (loss), net of tax	1,000	(4,515)
	-----	-----
Comprehensive income	\$ 67,665	\$ 44,720
	=====	=====

Average shares of basic common stock outstanding 100,034 99,256

Earnings per average common share outstanding

Basic	\$.67	\$.50
	=====	=====
Diluted	\$.66	\$.50
	=====	=====

CONSOLIDATED RETAINED EARNINGS

Balance at April 1	\$1,130,988	\$1,069,927
Add - net income	66,665	49,381
Gain on treasury stock	-	406
	-----	-----
	1,197,653	1,119,714
	-----	-----
Deduct - dividends paid		
Preferred stock	-	32
Preference stock	-	114
Common stock - \$.245 per share in 2002; \$.235 per share in 2001	24,508	23,297
	-----	-----
	24,508	23,443
	-----	-----
Balance at June 30	\$1,173,145	\$1,096,271
	=====	=====

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

 Consolidated Statements of Income and Comprehensive Income
 and of Retained Earnings (Unaudited)
 (In thousands, except per share amounts)

<TABLE>

	Six Months Ended	
	June 30,	
	2002	2001
	-----	-----
<s>	<c>	<c>
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$808,754	\$680,305
	-----	-----
Operating expenses		
Operation and maintenance	431,551	311,299
Depreciation and amortization	113,260	89,429
General taxes	70,232	65,776
	-----	-----
Total operating expenses	615,043	466,504
	-----	-----
Operating income	193,711	213,801
	-----	-----
Other income(deductions)		
Interest	(114,423)	(97,141)
Allowance for other funds used during construction	3,531	2,266
Allowance for borrowed funds used during construction	2,170	2,067
Amortization of debt expense	(1,391)	(1,388)
Preferred dividends of subsidiaries	(1,408)	(1,525)
Merger expenses	(1,733)	-
Gain from sale of operating systems	50,709	-
Gain on sale of other investments	22,466	3,367
Loss on write down of other investments	(10,764)	-

Gain on sale of land	15,851	-	
Other, net	17	(972)	
	-----	-----	
Total other income (deductions)	(34,975)	(93,326)	
	-----	-----	
Income before income taxes	158,736	120,475	
Provision for income taxes	76,858	47,633	
	-----	-----	
Income before cumulative effect of change in accounting principle	81,878	72,842	
Cumulative effect of change in accounting principle	2,679	-	
	-----	-----	
Net income	84,557	72,842	
Dividends on preferred stocks	146	292	
	-----	-----	
Net income to common stock	84,411	72,550	
	-----	-----	

	Six Months Ended	
	June 30,	
	2002	2001
	-----	-----
<s>	<c>	<c>
Other comprehensive income (loss), net of tax		
Unrealized loss on securities	(8,462)	(4,457)
Reclassification adjustment for gain (loss) included in net income	5,837	(2,052)
Foreign currency translation adjustment	1,407	-
	-----	-----
Other comprehensive income (loss), net of tax	(1,218)	(6,509)
	-----	-----
Comprehensive income	\$ 83,193	\$ 66,041
	=====	=====

Average shares of basic common stock outstanding 100,031 99,066

Earnings per average common share outstanding

Income before cumulative effect of change in accounting principle	\$.81	\$.73
Cumulative effect of change in accounting principle	.03	-

Basic	\$.84	\$.73
-------	--------	--------

Income before cumulative effect of change in accounting principle	\$.81	\$.73
Cumulative effect of change in accounting principle	.03	-

Diluted	\$.84	\$.73
---------	--------	--------

CONSOLIDATED RETAINED EARNINGS

Balance at January 1	\$1,137,772	\$1,069,486
Add - net income	84,557	72,842
Preferred stock redemption premium		(25)
Gain on treasury stock	-	744
	1,222,304	1,143,072

Deduct - dividends paid		
Preferred stock	32	64
Preference stock	114	228
Common stock - \$.49 per share in 2002; \$.47 per share in 2001	49,013	46,509
	49,159	46,801

Balance at June 30	\$1,173,145	\$1,096,271
--------------------	-------------	-------------

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet (Unaudited)
(In thousands)

<TABLE>

	June 30, 2002	December 31, 2001
	-----	-----
<s>	<c>	<c>
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	\$ 6,018,369	\$ 5,458,909
Utility plant acquisition adjustments, net	214,568	68,916
Non-utility property, net of accumulated depreciation	98,297	94,149
	-----	-----
Total property, plant and equipment	6,331,234	5,621,974
	-----	-----
Current assets		
Cash and cash equivalents	24,479	19,691
Customer accounts receivable	178,567	153,142
Allowance for uncollectible accounts	(8,898)	(7,660)
Unbilled revenues	101,380	86,065
Miscellaneous receivables	20,590	16,483
Materials and supplies	33,505	32,281
Deferred vacation pay	13,281	11,422
Other	27,583	19,164
	-----	-----
Total current assets	390,487	330,588
	-----	-----
Regulatory and other long-term assets		
Regulatory asset - income taxes recoverable through rates	212,775	217,330
Other investments	23,927	39,956
Debt and preferred stock expense	47,882	45,882
Deferred pension expense	36,472	30,712
Deferred postretirement benefit expense	8,884	9,318
Deferred security costs	16,400	7,058
Deferred business services project expenses	40,742	36,311
Deferred insurance expense	9,335	4,998
Deferred tank painting costs	14,312	16,585
Restricted funds	-	8,570

Goodwill	219,133	136,488	
Intangible assets	81,866	23,400	
Other	91,483	77,929	
	-----	-----	
Total regulatory and other long-term assets		803,211	654,537
	-----	-----	
TOTAL ASSETS		\$ 7,524,932	\$ 6,607,099
	=====	=====	

	June 30, 2002	December 31, 2001	
	-----	-----	
<s>	<c>	<c>	
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common stockholders' equity		\$ 1,792,412	\$ 1,758,018
Preferred stocks without mandatory redemption requirements		-	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements		28,620	30,474
Preferred stocks of subsidiaries without mandatory redemption requirements		6,708	7,268
Long-term debt			
American Water Works Company, Inc.		216,000	297,000
Subsidiaries	3,164,321	2,253,019	
	-----	-----	
Total capitalization	5,208,061	4,357,452	
	-----	-----	
Current liabilities			
Short-term debt	290,162	414,083	
Current portion of long-term debt		244,158	166,087
Accounts payable	61,303	67,996	
Taxes accrued, including federal income		90,065	21,756
Interest accrued	59,088	43,015	
Accrued vacation pay	13,468	11,577	
Other	110,292	100,220	
	-----	-----	

Total current liabilities	868,536	824,734	
	-----	-----	
Regulatory and other long-term liabilities			
Advances for construction	255,901	230,801	
Deferred income taxes	611,645	624,449	
Deferred investment tax credits	36,311	38,633	
Accrued pension expense	70,872	62,355	
Accrued postretirement benefit expense	13,964	13,808	
Accrued insurance expense	10,907	5,020	
Other	39,572	35,987	
	-----	-----	
Total regulatory and other long-term liabilities	1,039,172	1,011,053	
	-----	-----	
Contributions in aid of construction	409,163	413,860	
	-----	-----	
Commitments and contingencies	--	--	
	-----	-----	
TOTAL CAPITALIZATION AND LIABILITIES	\$ 7,524,932	\$ 6,607,099	
	=====	=====	

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

<TABLE>

	Six Months Ended	
	June 30,	
	2002	2001
	-----	-----
	<c>	<c>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 84,557	\$ 72,842

Adjustments

Depreciation and amortization	113,260	89,429
Cumulative effect of change in accounting principle (2,679)	-	-
Gain from sale of operating systems	(50,709)	-
Gain on sale of other investments	(22,466)	(3,367)
Loss on write down of other investments	10,764	-
Gain on sale of land	(15,851)	-
Provision for deferred income taxes	11,169	6,255
Provision for losses on accounts receivable	6,231	4,555
Allowance for other funds used during construction	(3,531)	(2,266)
Employee benefit expenses greater (less) than funding	1,966	(280)
Employee stock plan expenses	2,087	2,192
Deferred regulatory costs	(15,869)	(22,678)
Amortization of deferred charges	10,405	7,344
Other, net	(3,279)	(2,243)

Changes in assets and liabilities, net

of effects from acquisitions

Accounts receivable	(26,217)	(12,889)
Unbilled revenues	(15,775)	(15,337)
Other current assets	(11,416)	(2,935)
Accounts payable	(9,609)	(14,712)
Taxes accrued, including federal income	66,544	27,433
Interest accrued	17,607	(134)
Other current liabilities	10,365	(8,437)

Net cash from operating activities 157,554 124,772

CASH FLOWS FROM INVESTING ACTIVITIES

Construction expenditures	(198,025)	(153,488)
Allowance for other funds used during construction	3,531	2,266
Acquisitions	(883,064)	(54,173)
Proceeds from the sale of assets	164,612	4,950
Removal costs from property, plant and equipment retirements	(2,414)	(5,090)
Restricted funds	8,570	(247)

Net cash used in investing activities (906,790) (205,782)

Six Months Ended

	June 30,	
	2002	2001
	-----	-----
<s>	<c>	<c>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	984,365	146,765
Proceeds from common stock	980	21,109
Purchase of common stock for treasury	(36)	(386)
Net borrowings (repayments) under short-term debt agreements	(116,318)	6,172
Advances and contributions for construction, net of refunds	16,147	12,936
Debt issuance costs	(6,767)	(1,114)
Repayment of long-term debt	(62,445)	(66,530)
Redemption of preferred stocks	(12,743)	(1,940)
Dividends paid	(49,159)	(46,801)
	-----	-----
Net cash from financing activities	754,024	70,211
	-----	-----
Net increase(decrease) in cash and cash equivalents	4,788	(10,799)
Cash and cash equivalents at January 1	19,691	28,571
	-----	-----
Cash and cash equivalents at June 30	\$ 24,479	\$ 17,772
	=====	=====

Common stock placed into treasury in connection with the Employees Stock Ownership Plan, the Savings Plan for Employees, and 2000 Stock Award and Incentive Plan totaled \$983 in 2002 and \$1,774 in 2001.

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

 Information Accompanying Financial Statements (Unaudited)
 (In thousands, except share and per share amounts)

	June 30, 2002	December 31, 2001
	-----	-----
Preferred stocks without mandatory redemption requirements (All shares redeemed March 1, 2002)		
Cumulative preferred stock - \$25 par value		
Authorized 1,770,000 shares		
5% series (one-tenth of a vote per share)		
- 101,777 shares outstanding in 2001	\$ --	\$ 2,544
Cumulative preference stock - \$25 par value		
Authorized - 750,000 shares		
5% series (non-voting) - 365,158 shares		
outstanding in 2001	--	9,129
Cumulative preferential stock - \$35 par value		
Authorized - 3,000,000 shares		
(one-tenth of a vote per share)-		
no outstanding shares	--	--
	-----	-----
	\$ --	\$ 11,673
	=====	=====

Certain reclassifications have been made to conform previously reported data to the current presentation.

NOTE 2 -- Merger Agreement with RWE

On September 16, 2001 the Company entered into a merger agreement with RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH, which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. Under the terms of the merger agreement RWE will purchase all the outstanding shares of American Water Works Company common stock at a price of \$46.00 per share in cash.

RWE is a global multi-utility company that does business through its subsidiaries and affiliates in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling. Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water Plc, RWE's London-based international water services business. American Water will manage the joint operations in North, Central and South America.

The transaction was approved at a special meeting of the stockholders of American Water Works Company on January 17, 2002. Before the transaction can be completed, state and federal regulatory approvals are required. As of the end of January 2002, all of the applications for approval were filed where required by state regulatory authorities. The states where applications for approval have been filed are Arizona, California, Hawaii, Illinois, Kentucky, Maryland, New Jersey, New Mexico, New York, Pennsylvania, Tennessee, Virginia and West Virginia. The states of Georgia and Michigan do not regulate the Company's utility operations, and the states of Indiana, Iowa, Missouri, Ohio and Texas have no statutory jurisdiction over the RWE transaction. The Company is still awaiting approval in nine states. Those states are Arizona, California, Illinois, Maryland, New Jersey, New Mexico, New York, Pennsylvania and West Virginia. In Arizona hearings will be conducted in August and a final decision is anticipated during the early part of the fourth quarter of 2002. In California a schedule for processing the request has been issued by the Commission that could result in an Administrative Law Judge (ALJ) assigned to the case issuing a recommended decision no later than December 19, 2002. Once the ALJ's decision is issued there is a 25-day period for comments by the applicants and intervenors before the record is presented to the Commission for decision. In Illinois hearings have been completed and it is anticipated that a final decision will be issued by the end of the year. In Maryland hearing dates have not been established. In New

Jersey hearings are scheduled to conclude during August and a final decision is anticipated early in the fourth quarter. In New Mexico the ALJ assigned to the case issued a decision that recommends approval of the acquisition with conditions, and a final decision from the Commission on the Judge's recommendation is anticipated during August. In New York the

labor union representing a portion of the Company's workforce has recommended that the Commission approve the acquisition, with a final decision from the Commission anticipated prior to the end of 2002. In Pennsylvania the ALJ assigned to the case issued a decision that recommends approval of the acquisition with conditions, and a final decision from the Commission on the Judge's recommendation is anticipated during August. In West Virginia an agreement has been reached among the parties that recommends approval of the acquisition and identifies conditions to be included in the order, and a final Commission decision regarding the agreement is anticipated during August. Since approving the transaction in May, the Kentucky Public Service Commission reaffirmed its decision and clarified some of the conditions set forth in its original order. Although the Indiana Public Utility Commission does not have statutory jurisdiction over the transaction, that Commission is conducting a review of the transaction that is anticipated to be concluded during September. The Company made a Hart-Scott-Rodino filing with the Federal Trade Commission in the second quarter of 2002 and the investigation period expired without additional inquiry. The Company continues to believe that the original projection for a closing to occur some time during the first six months of 2003 remains a reasonable expectation.

One condition of the agreement requires the Company to redeem its publicly traded preferred stock prior to closing. That redemption was completed on March 1, 2002.

During the first six months of 2002 the Company recorded a charge of \$1.7 million, reflecting costs incurred in connection with the merger. The merger related costs have been reported on a separate line in the consolidated statement of income and comprehensive income. No tax benefit was recognized for these legal fees because it is not probable that these costs will be deductible for tax purposes.

On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp.(AWCC), executed a Note Purchase Agreement with RWE for \$1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes were purchased at par by RWE and mature on November 6, 2006.

The Company and its subsidiaries used the proceeds from the sale of the notes to acquire the common stock of Azurix North America Corp. and Azurix Industrials Corp., to fund the acquisition of the water and wastewater assets of Citizens Communications Company and to reduce outstanding short-term debt. Closing occurred in two tranches with one on November 6, 2001 in the amount of \$298.5 million and another on January 14, 2002 in the amount of \$900 million.

On June 12, 2002 the Company and AWCC executed a Note Purchase Agreement with RWE for \$320 million in senior unsecured notes. The agreement calls for up to \$170 million in notes at an interest rate of 5.65% and \$150 million in notes at a floating interest rate based on LIBOR rates plus 20 basis points. Closing occurred on \$40 million of the 5.65% senior notes on June 12, 2002 and the Company expects closing of the remaining \$130 million of 5.65% notes to occur in the fourth quarter of 2002. The 5.65% notes and floating rate notes are due on June 12, 2007 and June 26, 2003, respectively. These notes will be primarily used to repay short-term debt.

NOTE 3 -- Acquisition Of Water And Wastewater Assets Of Citizens Communications Company

On January 15, 2002 the Company and its subsidiaries completed their acquisition of all of the water and wastewater assets of Citizens Communications Company (NYSE:CZN) for \$859 million in cash and \$120 million of assumed liabilities. A \$.8 million increase to the purchase price has been agreed upon after the substantial completion of an audited closing statement of net assets. The acquired operations provide water and wastewater service to almost 300,000 regulated customers in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania. Citizens also had developed a water supply project in Illinois with the possibility of additional wholesale customers along the pipeline.

The Company is completing the determination of the amounts to be assigned to intangible assets and goodwill. At June 30, 2002, \$80.6 million and \$59.6 were recorded as goodwill and intangibles, respectively, in connection with this transaction. A value of \$54.3 million was assigned to intangible assets with an indefinite life, and \$5.3 million of value was assigned to intangible assets with lives from 15 to 21 years.

The purchase price for these assets was consistent with the multiples paid in other similar transactions. Regulatory and strategic considerations contributed to a purchase price that resulted in the recognition of goodwill. The assets reside in progressive regulatory environments where the Company currently operates and broadens the geographic diversity of the Company's total operations. The inclusion of the acquired customers in California and Arizona increases the Company's customers in the Western United States to 10% of its total customer base. With the acquisition, the Company becomes one of the principal water purveyors in the Phoenix area and strengthens its competitive position for the privatization opportunities in this rapidly growing region and the other states included in the acquisition footprint.

The unaudited pro forma results listed below were prepared as if the acquisition occurred on January 1, 2001 and include the historical results of the Company and of the acquired operations. The unaudited pro forma information is not necessarily indicative of the results of operations that might have occurred had the acquisition actually taken place on the date indicated, or of future results of operations of the combined entities:

Three months ended June 30,	2002	2001
Revenues	\$424,014	\$394,056
Net income	66,672	46,450
Earnings per average common share outstanding		
Basic	\$.67	\$.47
Diluted	\$.66	\$.47
Six months ended June 30,	2002	2001
Revenues	\$813,578	\$734,276
Income before cumulative effect of change in accounting principle	80,439	65,276
Net income	83,118	65,276
Earnings per average common share outstanding		
Income before cumulative effect of change in accounting principle	\$.80	\$.66
Cumulative effect of change in accounting		

principle	.03	-
Basic	.83	\$.66
Income before cumulative effect of change in accounting principle	\$.80	\$.66
Cumulative effect of change in accounting principle	.03	-
Diluted	.83	.66

NOTE 4 -- Goodwill and Intangible Assets

Goodwill increased from \$136.5 million at December 31, 2001 to \$219.1 million at June 30, 2002, primarily due to goodwill associated with the Citizens acquisition that was completed on January 15, 2002. At June 30, 2002 \$103.3 million of the Company's goodwill was assigned to the regulated utility services segment and \$115.8 million was assigned to the unregulated services segment.

Intangible assets increased from \$23.4 million at December 31, 2001 to \$81.9 million at June 30, 2002, reflecting \$59.6 million of intangible assets acquired in the Citizens transaction. At June 30, 2002 \$59.5 million of the intangible assets were in the regulated utility services segment and \$22.4 million were in the unregulated services segment. Intangible assets with finite lives at June 30, 2002 consisted of \$5.3 million (\$5.2 million net) in the regulated utility services segment with lives from 15 to 21 years and \$23.4 million (\$22.4 million net) in the unregulated services segment with lives of 11 years.

NOTE 5 -- Other Investments

On April 2, 2002 the Company tendered approximately 2.2 million shares of its 3.5 million shares of ITC Holding Company (ITC) common stock. The Company tendered the shares as part of ITC's program to repurchase its own stock. The Company acquired this stock with the 1999 acquisition of National Enterprises Inc. (NEI) as it was part of NEI's non-water related investments. The sale resulted in proceeds of \$26.2 million, and a \$14 million after-tax gain which was reflected in second quarter 2002 results. This cash gain was offset by a \$10.8 million non-cash loss, \$6.7 million after tax, that was also recorded during the second quarter when the Company determined that the value of two other securities acquired as part of the NEI acquisition had become permanently impaired. The Company continues to review all reasonable options regarding the remaining securities that include 1.3 million shares of Deutsche Telekom and 1.3 million shares of ITC acquired as part of the NEI acquisition.

NOTE 6 -- Gain From Sale Of Operating Systems

Kelda Group plc and the Company jointly announced on August 30, 2001 that they had reached an agreement whereby Kelda's Aquarion Company would acquire the Company's New England operations. On April 25, 2002 the Company completed the divestiture and received its initial cash payment of \$120.5 million subject to the terms and conditions of the agreement. An \$18.6 million after-tax gain was reflected in second quarter 2002 results.

The utility operations acquired by Aquarion serve a total of 65,000 customers and had revenues of \$51 million in 2001. A finance subsidiary of the Company, which owns and leases certain assets to its affiliated operating company in Massachusetts, was also acquired by Aquarion as part of the transaction.

NOTE 7 -- Gain On Sale Of Land

Two of the Company's subsidiaries completed separate transactions for the sale of non-essential property that resulted in \$10 million in after-tax net gains during the second quarter of 2002. These sales resulted in proceeds of approximately \$16 million.

NOTE 8 -- Earnings Per Share

The average number of shares used to calculate diluted earnings per share includes 13,520 of potential common shares issuable in connection with the long-term incentive program for the three-month period ended June 30, 2001 and 259,534 and 145,483 potential common shares for employee stock options for the three-month periods ended June 30, 2002 and 2001, respectively.

The average number of shares used to calculate diluted earnings per share includes 8,128 of potential common shares issuable in connection with the long-term incentive program for the six-month period ended June 30, 2001 and 287,490 and 119,110 potential common shares for employee stock options for the six-month periods ended June 30, 2002 and 2001, respectively.

NOTE 9 -- Segment Information

The following table presents information about the Company's reportable segments.

<TABLE>

Regulated
Utility
Services

Unregulated
Services

Other
Items

Consolidated

<s>

<c>

<c>

<c>

<c>

Three months ended June 30, 2002

Revenues from external
customers

\$370,085

\$ 53,929

\$ -

\$ 424,014

Intersegment revenues

-

2,098

(2,098)

-

Net income

48,530

1,508

16,627

66,665

Net income excluding unusual
items

42,859

(2,676)

(8,529)

31,654

285.305(o)

Three months ended June 30, 2001

Revenues from external
customers

\$353,914

\$ 9,964

\$ -

\$ 363,878

Intersegment revenues

-

1,964

(1,964)

-

Net income

54,965

(624)

(4,960)

49,381

Net income excluding unusual
items

54,965

(624)

(7,014)

47,327

Six months ended June 30, 2002

Revenues from external
customers

\$708,446

\$100,308

\$ -

\$ 808,754

Intersegment revenues

-

3,656

(3,656)

-

Income before cumulative
effect of change in
accounting principle

73,880

(552)

8,550

81,878

Net income

76,559

(552)

8,550

84,557

Net income excluding unusual
items

68,209

(4,736)

(15,659)

47,814

Total assets

7,204,634

330,450

(10,152)

7,524,932

Six months ended June 30, 2001

Revenues from external
customers

\$660,056

\$ 20,249

-

\$ 680,305

Intersegment revenues

-

3,314

(3,314)

-

Income before cumulative
effect of change in
accounting principle

85,185

(1,365)

(10,978)

72,842

Net income

85,185

(1,365)

(10,978)

72,842

Net income excluding unusual
items

85,185

(1,365)

(13,032)

70,788

Total assets

6,176,579

101,193

11,806

6,289,578

The "other items" include corporate costs of American Water Works Company and intersegment eliminations. Total revenues are from United States of America (U.S.) operations except Unregulated Services Canadian revenues of \$13,983 and \$22,770 for the three and six months ended June 30, 2002, respectively. Total assets are from U.S. operations except Unregulated Services Canadian assets of \$63,603 at June 30, 2002. Unusual items include merger expenses, a gain on the sale of operating systems, gains from the sale of other investments, a loss on the write down of other investments, and gains on the sale of land.

</TABLE>

NOTE 10 -- New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142),

collectively referred to as the "Standards." SFAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, "Business Combinations." The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provided specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives. The Company adopted the provisions of the Standards on January 1, 2002.

The Standards require the excess of the fair values of acquired net assets over cost recorded in the statement of financial position to be recognized as the effect of a change in accounting principle as of the date SFAS 141 is initially applied in its entirety. In compliance with this transition requirement the Company recognized a \$2.7 million gain on January 1, 2002.

During the second quarter of 2002 the Company completed the process of making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units as of January 1, 2002. The reporting units were the 27 separate regulated utility subsidiaries (including the five New England subsidiaries that were sold on April 25, 2002) and unregulated services reporting units at American Water Resources and American Water Services. The Company's carrying value of goodwill at January 1, 2002 was \$139.2 million, of which \$23.4 million is assigned to various regulated subsidiaries and \$115.8 million is assigned to American Water Services. Intangible assets with an assigned value of \$23.4 million were management contracts at American Water Services that have a finite

life.

A transitional impairment test for goodwill as of January 1, 2002 was completed by the Company in the second quarter of 2002. Income and market approaches were used for reporting unit valuations. The methodologies used to implement the market approach were the market multiples methodology, which results in an indication of value by comparing the business being valued to guideline publicly traded companies, and the

similar transactions methodology, which develops an indication of value based on prices paid for comparable business. The methodology used to implement the income approach was the capitalized income approach that bases the value of an asset on the future cash flows attributable to that asset. Based on these approaches the Company determined that goodwill is not currently impaired. The Company will perform required annual impairment tests in the fourth quarter after the long-term planning process has been completed.

The Company is no longer recording \$1.7 million of annual tax deductible amortization relating to the goodwill associated with the 1999 acquisition of its joint venture partner's interest in AmericanAnglian Environmental Technologies. The remainder of the goodwill and intangible assets at January 1, 2002 were not being amortized because they are related to business combinations completed after the July 1, 2001 effective date of SFAS 141 or the goodwill was related to acquisitions that occurred prior to October 31, 1970 that was not being amortized because in the opinion of management there had been no diminution in value. The following table reflects consolidated results adjusted as though the adoption of the Standards occurred as of the beginning of the three and six-month periods ended June 30, 2001:

2002

2001

Three months ended June 30

Reported net income

\$66,665

\$49,381

Add back goodwill amortization

-

269

Adjusted net income

\$66,665

\$49,650

Basic earnings per share:

Reported net income

\$.67

\$.50

Goodwill amortization

-

-

Adjusted net income

\$.67

\$.50

Diluted earnings per share:

Reported net income

\$.66

\$.50

Goodwill amortization

-

-

Adjusted net income

\$.66

\$.50

Six months ended June 30

Reported income before cumulative
effect of change in
accounting principle

\$81,878

\$72,842

Add back goodwill amortization

-

539

Adjusted income before cumulative
effect of change in accounting
principle

\$81,878

\$73,381

Reported net income

\$84,557

\$72,842

Add back goodwill amortization

-

539

Adjusted net income

\$84,557

\$73,381

Basic earnings per share:

Income before cumulative effect
of change in accounting
principle

\$.81

\$.73

Cumulative effect of change in
accounting principle

.03

-

As reported

.84

.73

Goodwill amortization

-

.01

Adjusted

\$.84

\$.74

Diluted earnings per share:

Income before cumulative effect of
change in accounting principle

\$.81

\$.73

Cumulative effect of change in
accounting principle

.03

-

As reported

.84

.73

Goodwill amortization

-

.01

Adjusted

\$.84

\$.74

In June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April of 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

In June of 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 146, "Accounting For Costs Associated with Exit or Disposal Activities," (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or

disposal activities and nullifies Emerging Issues Task force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a

liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 146 will have on its results of operations and financial position but does not expect them to be material.

PART I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The operating results of the Azurix North American Corp. and Azurix Industrials Corp. (Azurix), and the water and wastewater assets of Citizens Communications Company (Citizens) acquisitions have been included in the consolidated statements of income and comprehensive income since the completion of the acquisitions on November 7, 2001 and January 15, 2002, respectively.

Consolidated revenues for the second quarter and first six months of 2002 were higher than for the same periods of 2001 by 17% and 19%, respectively. These increases reflect the additional revenues from the Company's Azurix and Citizens acquisitions, that were partially offset by the sale of the New England subsidiaries on April 25, 2002.

Approximately \$44 million and \$80 million of the overall revenue increase in the second quarter and first six months in 2002 occurred in the unregulated services segment, reflecting the November 2001 acquisition of Azurix. The portion of the Company's overall revenue from its unregulated businesses grew from 3% during the second quarter of 2001 to 13% during the second quarter of 2002.

Regulated business revenues increased by 5% and 7% for the second quarter and first six months of 2002 compared to the same periods in 2001. The primary reason for the increase in revenue generated by the regulated businesses during the second quarter of 2002 was the addition of \$32 million in revenue from the Citizens acquisition. The Citizens acquisition added revenues of \$53 million during the first six months of 2002.

During the first six months of 2002, four utility subsidiaries received rate orders that are expected to provide \$26.3 million in additional annual revenues. The largest of these rate increases was a \$24 million annual rate increase authorization in Pennsylvania that became effective in January of 2002. Three of the Company's subsidiaries have rate increase applications on file requesting additional annual revenues of \$19.6 million. The \$12.7 million request by the Company's Indiana subsidiary accounts for the major portion of the pending requests.

The addition of almost 300,000 customers from the Citizens acquisition resulted in increases of 6% and 5% in total water sales in the second quarter and six months over the same periods in 2001. Even though revenues and sales increased between the second quarter and first six months of 2001 and the same periods in 2002, per customer water sales, excluding the Citizens acquisition, were less than prior year amounts. These decreases are mainly a result of weather patterns and the economy.

Mandated restrictions on water use due to drought conditions in New Jersey and Pennsylvania, and unusually high rainfall in the Midwest and Southeast, were the primary causes for water use reductions for residential and small business customers.

In addition, industrial water use continued on a decline that began in late 2001. Industrial sales for the second quarter and first six months were down 8% and 9%, or 900 million gallons and 1.8 billion gallons, compared to the same periods in 2001. Present economic conditions continue to put pressure on these large customers, forcing curtailments or closing of operations.

Operating expenses in the second quarter and the first six months of 2002 were 33% and 32% higher than the same periods in 2001. The inclusion of the operating expenses related to the Azurix and Citizens operations during the second quarter and first six months of 2002 significantly increased total expenses as these acquisitions were not part of the company's consolidated financial information during the same periods last

year. Approximately \$60 million of the \$62 million increase in operation and maintenance expenses (O&M) and \$73 million of the \$78 million increase in total operating expenses experienced by the Company during the second quarter of 2002 over the second quarter of 2001 resulted from the addition of expenses from Azurix and Citizens.

Included in these expenses are costs to integrate the businesses, particularly the Azurix operations into existing operations. These costs will continue throughout the year as the Company continues to transition systems and locations.

On a per customer basis, regulated operations experienced a 2% increase in O&M expenses in the second quarter of 2002 compared to the second quarter of 2001, reflecting the beginning of the realization of the synergies with the Citizens acquisition. Per customer O&M expenses for the six months ended June 30, 2002 had increased by 4% over the first six months in 2001. During the remainder of the year the Company anticipates O&M per customer expense savings will continue to materialize as projects to consolidate certain business functions are completed. However, it should be noted that expenses will be negatively impacted by anticipated increases in pension and insurance costs reflecting external market dynamics.

The increases in depreciation expense for the second quarter and first six months were related to the Company's ongoing program of utility plant construction.

Interest expense rose by \$8.5 million in the second quarter and \$17.3 million in the first six months of 2002 compared to the same periods in 2001. This increase is attributable to approximately \$1.2 billion of new debt associated with the Azurix and Citizens acquisitions.

Income taxes increased in the second quarter and first six months of 2002 when compared to the second quarter and first six months in 2001 reflecting increased earnings due to the sale of operating systems, investments and land. The Company's effective income tax rate for the six months ended June 30 increased to 48.4% in 2002 from 39.5% in 2001, reflecting the relatively low tax basis in the stock of the New England subsidiaries that was sold in 2002 and \$1.7 million of expenses incurred in 2002 in connection with the pending merger with RWE Aktiengesellschaft for which it is not probable that the Company will receive a tax deduction.

Net income to common stock was \$66.7 million for the second quarter of

2002 compared with \$49.2 million for the same period in 2001. Net income to common stock for the first six months of 2002 was \$84.4 million compared with \$72.6 million for the same period in 2001.

Other comprehensive income, net of tax, was \$1 million in the second quarter of 2002 compared to a \$4.5 million loss in the same period in 2001. Other comprehensive loss, net of tax, was \$1.2 million and \$6.5 million in the first six months of 2002 and 2001, respectively. The Company's other comprehensive income or loss represents the after-tax unrealized gain or loss on passive investments in publicly traded securities and foreign currency translation adjustments.

Comprehensive income increased to \$67.7 million and \$83.2 million in the second quarter and first six months of 2002, respectively, compared to comprehensive income of \$44.7 million and \$66.0 million in the same periods in 2001.

Diluted earnings per share of common stock in the second quarter of 2002 were \$.66 compared to \$.50 in the same period in 2001. These 2002 results include a 19-cent per share positive impact associated with the sale of the Company's New England operations, a 14-cent positive impact from the sale of other investments in ITC Holding Company stock, a seven-cent negative impact from the permanent write-down of other investments that were part of non-water investments included in the Company's 1999 acquisition of National Enterprises Inc. (NEI), a ten-cent positive impact resulting from sales of land and expenses of one-cent per share related to the RWE merger. Diluted earnings per share of common stock in the first six months of 2002 were \$.84 compared to \$.73 in the same period in 2001. These 2002 results include a three-cent per share positive impact of adopting the new financial accounting standards relating to business combinations, a 19-cent per share positive impact associated with the sale of the Company's New England operations, a 14-cent positive impact from the sale of other investments in ITC Holding Company stock, a seven-cent negative impact from the permanent write-down of other investments that were part of non-water investments included in the Company's 1999 acquisition of NEI, a ten-cent positive impact resulting from sales of land and expenses of two-cents per share related to the RWE merger.

Capital Resources and Liquidity

On January 14, 2002 the Company's financing subsidiary, American Water Capital Corp.(AWCC) closed on its second and final issue totaling \$900 million under its November 6, 2001 Note Purchase Agreement with RWE.

These 4.92% notes were primarily used to fund the acquisition of the Citizens water and wastewater assets. On June 12, 2002 the Company and AWCC executed another Note Purchase Agreement with RWE for up to \$320 million in senior unsecured notes. The agreement allows AWCC to issue up to \$170 million in notes at an interest of 5.65% and \$150 million in notes at a floating interest rate based on LIBOR rates plus 20 basis points. Closing occurred on \$40 million of the 5.65% senior notes on June 12, 2002 and the Company expects closing of the remaining \$130 million of 5.65% notes to occur in the fourth quarter of 2002. The 5.65% notes and floating rate notes are due on June 12, 2007 and June 26, 2003, respectively. These notes will be primarily used to repay short-term debt.

On July 31, 2002 AWCC extended for one year its current 364-day \$500 million revolving credit agreement with a group of eleven domestic and international banks. The revolving credit agreement supports AWCC's commercial paper program.

Two subsidiaries issued \$39.9 million in tax-exempt long-term debt during the first six months of 2002.

In the first six months of 2002, the Company invested \$19.5 million in the common stock of three subsidiaries.

A condition of the merger agreement with RWE required the Company to redeem all of its issued and outstanding shares of 5% Cumulative Preference Stock and 5% Cumulative Preferred Stock prior to closing. That redemption was completed on March 1, 2002. The 365,158 shares of 5% Cumulative Preference Stock were redeemed for \$25.00 per share and the 101,777 shares of 5% Cumulative Preferred Stock were redeemed for \$25.25 per share, in each case without interest.

On April 2, 2002 the Company tendered approximately 2.2 million shares of its 3.5 million shares of ITC Holding Company (ITC) common stock. The Company tendered the shares as part of ITC's program to repurchase its own stock. The Company acquired this stock with the 1999 acquisition of National Enterprises Inc. (NEI) as it was part of NEI's non-water related investments. The sale resulted in proceeds of \$26.2 million, and a \$14 million after-tax gain which was reflected in second quarter 2002 results. This cash gain was offset by a \$10.8 million non-cash loss, \$6.7 million

after tax, that was also recorded during the second quarter when the Company determined that the value of two other securities acquired as part of the NEI acquisition had become permanently impaired. The Company continues to review all reasonable options regarding the remaining securities that include 1.3 million shares of Deutsche Telekom and 1.3 million shares of ITC acquired as part of the NEI acquisition.

The value of the Company's pension plan assets decreased to \$339.3 million at June 30, 2002 from \$365.9 million at December 31, 2001, reflecting negative equity returns. Negative investment returns will increase the Company's pension expense and plan contributions in the future.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), collectively referred to as the "Standards." SFAS 141 supersedes

Accounting Principles Board Opinion (APB) No. 16, "Business Combinations." The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provided specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have finite lives. The Company adopted the provisions of the Standards on January 1, 2002.

The Standards require the excess of the fair values of acquired net assets over cost recorded in the statement of financial position to be recognized as the effect of a change in accounting principle as of the date SFAS 141 is initially applied in its entirety. In compliance with this transition requirement the Company recognized a \$2.7 million gain on January 1, 2002.

During the second quarter of 2002 the Company completed the process of making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units as of January 1, 2002. The reporting units were the 27 separate regulated utility subsidiaries (including the five New England subsidiaries that were sold on April 25, 2002) and unregulated services reporting units at American Water Resources and American Water Services. The Company's carrying value of goodwill at January 1, 2002 was \$139.2 million, of which \$23.4 million is assigned to various regulated subsidiaries and \$115.8 million is assigned to American Water Services. Intangible assets with an assigned value of \$23.4 million were management contracts at American Water Services that have a finite life.

A transitional impairment test for goodwill as of January 1, 2002 was completed by the Company in the second quarter of 2002. Income and market approaches were used for reporting unit valuations. The methodologies used to implement the market approach were the market multiples methodology, which results in an indication of value by comparing the

business being valued to guideline publicly traded companies, and the similar transactions methodology, which develops an indication of value based on prices paid for comparable business. The methodology used to implement the income approach was the capitalized income approach that bases the value of an asset on the future cash flows attributable to that asset. Based on these approaches it was determined that goodwill is not currently impaired. The Company will perform required annual impairment tests in the fourth quarter after the long-term planning process has been completed.

The Company is no longer recording \$1.7 million of annual tax deductible amortization relating to the goodwill associated with the 1999 acquisition of its joint venture partner's interest in AmericanAnglian Environmental Technologies. The remainder of the goodwill and intangible assets at January 1, 2002 were not being amortized because they are related to business combinations completed after the July 1, 2001 effective date of SFAS 141 or the goodwill was related to acquisitions that occurred prior to October 31, 1970 that was not being amortized because in the opinion of management there had been no diminution in value. The following table reflects consolidated results adjusted as though the adoption of the Standards occurred as of the beginning of the three and six-month periods ended June 30, 2001:

2002

2001

Three months ended June 30

Reported net income

\$66,665

\$49,381

Add back goodwill amortization

-

269

Adjusted net income

\$66,665

\$49,650

Basic earnings per share:

Reported net income

\$.67

\$.50

Goodwill amortization

-

-

Adjusted net income

\$.67

\$.50

Diluted earnings per share:

Reported net income

\$.66

\$.50

Goodwill amortization

-

-

Adjusted net income

\$.66

\$.50

Six months ended June 30

Reported income before cumulative
effect of change in
accounting principle

\$81,878

\$72,842

Add back goodwill amortization

-

539

Adjusted income before cumulative
effect of change in accounting
principle

\$81,878

\$73,381

Reported net income

\$84,557

\$72,842

Add back goodwill amortization

-

539

Adjusted net income

\$84,557

\$73,381

Basic earnings per share:

Income before cumulative effect
of change in accounting
principle

\$.81

\$.73

Cumulative effect of change in
accounting principle

.03

-

As reported

.84

.73

Goodwill amortization

-

.01

Adjusted net income

\$.84

\$.74

Diluted earnings per share:

Income before cumulative effect
of change in accounting
principle

\$.81

\$.73

Cumulative effect of change in
accounting principle

.03

-

As reported

\$.84

\$.73

Goodwill amortization

-

.01

Adjusted

\$.84
\$.74

In June of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August of 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April of 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements

No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

In June of 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 146, "Accounting For Costs Associated with Exit or Disposal Activities," (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 146 will have on its results of operations and financial position but does not expect them to be material.

Forward Looking Information

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality;

competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risks described in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2001.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

- (a) The Company held its annual meeting of shareholders on May 2, 2002.
- (b) Class I Directors (with a term expiring in 2005) were elected by a vote of:

	For	Withheld
	---	-----

J. James Barr	90,256,263	562,361
---------------	------------	---------

Elizabeth H. Gemmill	90,259,959	558,665
Nancy Ware Wainwright	90,229,487	589,137
Paul W. Ware	90,244,309	574,315
William S. White	90,338,173	538,316

The appointment of PricewaterhouseCoopers LLP as the Company's independent accountants for the year ending December 31, 2002 was approved by a vote of 89,055,798 for the appointment and 1,503,888 against, with 258,938 abstentions.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit Number	Description
----------------	-------------

10	Material Contracts
----	--------------------

(a)	Note Purchase Agreement dated June 12, 2002 between American Water Capital Corp. and RWE Aktiengesellschaft for up to \$320 Million Senior Unsecured Notes and related Note and Registration Rights Agreement.
-----	--

99	Additional Exhibits
----	---------------------

	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)
--	---

B. Reports on Form 8-K

A current report on Form 8-K was filed on May 9, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on June 20, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

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.

AMERICAN WATER WORKS COMPANY, INC.
(Registrant)

Date August 14, 2002 \s\ Ellen C. Wolf

Vice President and Chief Financial Officer
(Authorized Officer)

Date August 14, 2002

\s\ Robert D. Sievers

285.305(o)

Comptroller
(Chief Accounting Officer)

</TEXT>

</DOCUMENT>

<DOCUMENT>
<TYPE>EX-10
<SEQUENCE>3
<FILENAME>exhibit10.txt
<TEXT>

AMERICAN WATER CAPITAL CORP.

UP TO \$170,000,000 5.65% SENIOR NOTES DUE JUNE 12, 2007

\$150,000,000 FLOATING RATE SENIOR NOTES DUE JUNE 26, 2003

Support Agreement from

AMERICAN WATER WORKS COMPANY, INC.

NOTE PURCHASE AGREEMENT

Dated as of June 12, 2002

Table of Contents

Page	
SECTION 1.	AUTHORIZATION OF NOTES, SUPPORT AGREEMENT 1
SECTION 2.	SALE AND PURCHASE OF NOTES 2
SECTION 3.	CLOSINGS 2
Section 3.1.	Fixed Rate Note Closings 2
Section 3.2.	Floating Rate Note Closing 2
Section 3.3.	Payment 2
SECTION 4.	CONDITIONS TO CLOSING 3
Section 4.1.	Representations and Warranties 3

Section 4.2.	Performance; No Default	3
Section 4.3.	Compliance Certificates and Organizational Documents.	3
Section 4.4.	Opinions of Counsel	3
Section 4.5.	Purchase Permitted by Applicable Law, etc.	4
Section 4.6.	Changes in Corporate Structure	4
Section 4.7.	Proceedings and Documents	4
Section 4.8.	Merger Agreement	4
Section 4.9.	Registration Rights	4

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND AMERICAN WATER WORKS 4

SECTION 6. REPRESENTATIONS OF THE PURCHASER 9

Section 6.1. Purchase for Investment 9

SECTION 7. INFORMATION AS TO AMERICAN WATER WORKS AND THE COMPANY 9

Section 7.1. Financial and Business Information 9

Section 7.2. Inspection 11

SECTION 8. PREPAYMENT OF THE NOTES 11

Section 8.1. Final Maturity 11

Section 8.2. Optional Prepayments with Make-Whole Amount 11

Section 8.3. Allocation of Partial Prepayments 12

Section 8.4. Maturity; Surrender, etc 12

Section 8.5. Purchase of Notes 12

Section 8.6. Make-Whole Amount 12

SECTION 9. AFFIRMATIVE COVENANTS 14

Section 9.1. Corporate Existence 14

Section 9.2. Support Agreement 14

Section 9.3. Maintenance of Properties 15

Section 9.4. Payment of Taxes and Other Claims 15

Section 9.5. Nature of Business of the Company 15

Section 9.6. Rating of the Notes 15

Section 9.7. Transfer of Notes 15

SECTION 10. NEGATIVE COVENANTS 16

Section 10.1. Restrictions on Liens 16

Section 10.2. Company and American Water Works May Consolidate, Etc., Only on Certain Terms 17

Section 10.3. Successor Corporation Substituted 18

SECTION 11. EVENTS OF DEFAULT 18

SECTION 12. REMEDIES ON DEFAULT, ETC. 20

Section 12.1. Acceleration of the Notes 20

Section 12.2. Other Remedies 21

Section 12.3. Rescission 21

Section 12.4. No Waivers or Election of Remedies, Expenses,
etc. 21

SECTION 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES 22

Section 13.1. Registration of Notes 22

Section 13.2. Transfer and Exchange of Notes 22

Section 13.3. Replacement of Notes 22

SECTION 14. PAYMENTS ON NOTES 23

Section 14.1. Place of Payment 23

Section 14.2. Home Office Payment 23

SECTION 15. EXPENSES, ETC. 23

Section 15.1. Transaction Expenses 23

Section 15.2. Survival 24

SECTION 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES;
ENTIRE AGREEMENT 24

SECTION 17. AMENDMENT AND WAIVER 24

Section 17.1. Requirements 24

Section 17.2. Solicitation of Holders of Notes 24

Section 17.3. Binding Effect, etc 25

Section 17.4. Notes Held by American Water Works or the
Company, etc. 25

SCHEDULE A - Defined Terms

EXHIBIT 1-A - Form of Fixed Rate Note

EXHIBIT 1-B - Form of Floating Rate Note

EXHIBIT 2 - Form of Support Agreement

EXHIBIT 4.4 - Form of Opinion of Counsel for the Company and

American Water Works

EXHIBIT 4.9 - Form of Registration Rights Agreement

AMERICAN WATER CAPITAL CORP.
AMERICAN WATER WORKS COMPANY, INC.
1025 Laurel Oak Road,
Voorhees, New Jersey 08043

5.65% SENIOR NOTES DUE JUNE 12, 2007

FLOATING RATE SENIOR NOTES DUE JUNE 26, 2003

Dated as of June 12, 2002

RWE AKTIENGESELLSCHAFT

OPERNPLATZ 1, 45128

ESSEN, GERMANY

Ladies and Gentlemen:

The undersigned, American Water Capital Corp., a Delaware corporation (the "Company"), and American Water Works Company, Inc., a Delaware corporation ("American Water Works"), hereby jointly and severally agree with RWE Aktiengesellschaft (the "Purchaser") as follows:

Section 1. AUTHORIZATION OF NOTES, SUPPORT AGREEMENT.

The Company will authorize the issue and sale of (i) up to \$170,000,000 aggregate principal amount of its 5.65% Senior Notes due June 12, 2007 (the "Fixed Rate Notes") and (ii) \$150,000,000 aggregate principal amount of its Floating Rate Senior Notes due June 26, 2003 (the "Floating Rate Notes," and, together with the Fixed Rate Notes, the "Notes," such term to include any such notes issued in substitution therefor pursuant to Section 13.2 or Section 13.3 of this Agreement). The Fixed Rate Notes shall be in the form set out in Exhibit 1-A and the Floating Rate Notes shall be in the form set out in Exhibit 1-B, with such changes therefrom, if any, as may be approved by the Purchaser and the Company. Certain capitalized terms used in this Agreement are defined in Schedule A; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

American Water Works previously entered into a Support Agreement, dated June 22, 2000 and amended as of July 26, 2000 (as such agreement may be hereafter amended, modified or supplemented from time to time in accordance with its terms and the provisions of this Agreement, the "Support Agreement"), with

the Company, a copy of which (as in effect on the date of this Agreement) is attached hereto as Exhibit 2, pursuant to which American Water Works has agreed, among other things, to ensure the timely payment of principal of and premium, if any, and interest on Debt (as defined in the Support Agreement) issued by the Company.

Section 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to the Purchaser and the Purchaser will purchase from the Company, at the Fixed Rate Note Closings as defined and provided for in Section 3, Fixed Rate Notes in the principal amount of up to \$170,000,000 at the purchase price of 100% of the principal amount thereof.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to the Purchaser and the Purchaser will purchase from the Company, at the Floating Rate Note Closing as defined and provided for in Section 3, Floating Rate Notes in the principal amount of \$150,000,000 at the purchase price of 100% of the principal amount thereof.

Section 3. CLOSINGS.

The sale and purchase of the Fixed Rate Notes and the Floating Rate Notes to be purchased by the Purchaser shall occur at the offices of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017 at 10:00 a.m., New York time (the "Fixed Rate Note Closings" and the "Floating Rate Note Closing," respectively, each being a "Closing") on the dates specified herein.

Section 3.1. Fixed Rate Note Closings. The initial Fixed Rate Note Closing shall occur on June 12, 2002, or on such later Business Day as may be agreed upon by the Company and the Purchaser, at which time the Company shall sell and the Purchaser shall purchase Fixed Rate Notes in an aggregate principal amount of \$40,000,000. An additional Fixed Rate Note Closing shall occur on October 1, 2002, or on such later Business Day as may be agreed upon by the Company and the Purchaser, at which time the Company shall sell and the Purchaser shall purchase Fixed Rate Notes in an aggregate principal amount specified by the Company in writing to the Purchaser not less than three Business Days prior to such Closing; provided that such amount shall not exceed \$130,000,000.

Section 3.2. Floating Rate Note Closing. The Floating Rate Note Closing shall occur on the tenth calendar day (or, if such date is not a Business Day, the next succeeding Business Day) following the giving of written notice by the Company to the Purchaser of such Closing, or on such later Business Day as may be agreed upon by the Company and the Purchaser; provided,

however, that in no event shall a Closing occur prior to June 27, 2002, and provided further that there shall only be one Floating Rate Note Closing.

Section 3.3. Payment. At each Closing, the Company will deliver to the Purchaser the Notes to be so purchased in the form of a single Note (or such greater number of Notes in denominations of at least \$5,000,000 as the Purchaser may request) dated the date of such Closing and registered in the Purchaser's name, against delivery by the Purchaser to the Company or its order, of immediately available funds in the amount of the purchase price therefor by wire transfer of immediately available funds for the account of the Company to account number 8013583379 at PNC Bank, National Association, Moorestown, New Jersey 08057, ABA# 031207607, or to such other account or accounts as the Company shall have designated in writing. If at a Closing the Company shall fail to tender such Notes to the Purchaser as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to the Purchaser's satisfaction, the Purchaser shall, at the Purchaser's election, be relieved of all obligations under this Agreement with respect to such Closing, without thereby waiving any rights the Purchaser may have by reason of such failure or such nonfulfillment.

Section 4. CONDITIONS TO CLOSING.

The obligation of the Purchaser to purchase and pay for the Notes at a Closing is subject to the fulfillment to the Purchaser's satisfaction, prior to or at such Closing, of the following conditions with respect to such Notes:

Section 4.1. Representations and Warranties. The representations and warranties of the Company and American Water Works in this Agreement that are qualified as to materiality shall be true and correct at the time of the Closing and the representations and warranties of the Company and American Water Works in this Agreement that are not qualified as to materiality shall be true and correct in all material respects at the time of the Closing.

Section 4.2. Performance; No Default. The Company and American Water Works shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by each of them prior to or at the Closing and, after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof), no Default or Event of Default shall have occurred and be continuing.

Section 4.3. Compliance Certificates and Organizational Documents.

(a) Officer's Certificate. The Company and American

Water Works shall each have delivered to the Purchaser an Officer's Certificate, dated the date of the Closing, certifying that the conditions specified in Sections 4.1, 4.2 and 4.6, and in the case of American Water Works Section 4.8, have been fulfilled.

(b) Secretary's Certificate. The Company and American Water Works shall each have delivered to the Purchaser a certificate, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of the Notes and this Agreement.

(c) Organizational Documents. The Company and American Water Works shall each have delivered such other certificates and documents relating to the organization, existence and good standing of each such party as the Purchaser may reasonably request.

Section 5. OPINIONS OF COUNSEL

The Purchaser shall have received opinions in form and substance satisfactory to the Purchaser and the Purchaser's special counsel, dated the date of the Closing, from Simpson Thacher & Bartlett, special counsel for American Water Works and the Company, and W. Timothy Pohl, General Counsel and Secretary to American Water Works, covering the matters set forth in Exhibit 4.4 and covering such other matters incident to the transactions contemplated hereby as the Purchaser or the Purchaser's special counsel may reasonably request.

Section 5.1. Purchase Permitted by Applicable Law, etc. On the date of the Closing, each purchase of Notes shall (a) not violate any applicable law or regulation (including, without limitation, Regulation U, T or X of the Board of Governors of the Federal Reserve System) and (b) not subject any Purchaser to any tax, penalty or liability under or pursuant to any applicable law or regulation, which law or regulation was not in effect on the date hereof.

Section 5.2. Changes in Corporate Structure. Neither the Company nor American Water Works shall have changed its jurisdiction of incorporation or, with the exception of the Merger Agreement or any transaction permitted or contemplated thereby, been a party to any merger or consolidation or shall have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in the Disclosure Documents filed prior to the date of this Agreement.

Section 5.3. Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be reasonably satisfactory

to the Purchaser and the Purchaser's special counsel, and the Purchaser and the Purchaser's special counsel shall have received all such counterpart originals or certified or other copies of documents as the Purchaser or the Purchaser's special counsel may reasonably request.

Section 5.4. Merger Agreement. The Merger Agreement shall not have been terminated by American Water Works pursuant to Article VII thereof. American Water Works shall not be in default in the performance of its obligations under the covenants and agreements set forth in Articles IV and V of the Merger Agreement, and the representations and warranties of American Works contained in the Merger Agreement shall be true and correct, other than for such failures to be true and correct that individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect.

Section 5.5. Registration Rights. American Water Works, the Company and the Purchaser shall have entered into a registration rights agreement substantially in the form of Exhibit 4.9 hereto.

Section 6. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND AMERICAN WATER WORKS.

The Company and American Water Works, jointly and severally, represent and warrant to the Purchaser that:

(a) Disclosure. The Disclosure Documents do not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(b) Organization; Power and Authority. Each of the Company and American Water Works has been duly incorporated and is an existing corporation in good standing under the laws of the State of Delaware, with corporate power and corporate authority to own its properties and conduct its business as described in the Disclosure Documents; and, except as set forth in Section 3.01(a) of the Company Disclosure Schedule to the Merger Agreement, each of the Company and American Water Works is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, unless such failure to be so qualified by the Company or American Water Works would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(a) Organization and Ownership of Shares of Subsidiaries. Each Subsidiary of American Water Works other than the Company has been duly incorporated and is an existing corporation in good standing under the laws of the

jurisdiction of its incorporation, with power and authority (corporate and other) to own its properties and conduct its business as described in the Disclosure Documents; and each Subsidiary is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not reasonably be expected to have a Material Adverse Effect; all of the issued and outstanding capital stock of each Subsidiary of American Water Works has been duly authorized and validly issued and is fully paid and nonassessable; and, except as disclosed in the Disclosure Documents and as otherwise set forth in Section 3.01(b) of the Company Disclosure Schedule to the Merger Agreement, all of the issued and outstanding shares of capital stock of, or other equity or voting interests in, each Subsidiary of American Water Works as of the date of this Agreement are owned by American Water Works, by another wholly-owned Subsidiary of American Water Works or by American Water Works and another wholly-owned Subsidiary of American Water Works, free and clear of all material pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever and are duly authorized, validly issued, fully paid and nonassessable.

(c) Authorization by Company. This Agreement has been duly authorized, executed and delivered by the Company and, assuming due authorization, execution and delivery by the Purchaser, constitutes a valid and legally binding agreement of the Company and is enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles. Each of the Fixed Rate Notes and the Floating Rate Notes have been duly authorized by the Company and, at any Closing, will have been duly executed by the Company, and when issued and delivered in the manner provided for in this Agreement, will constitute valid and binding obligations of the Company, enforceable against the Company in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(d) Governmental Authorization. No consent, approval, authorization, or order of, or filing with, any governmental agency or body or any court is required to be

obtained or made by American Water Works or the Company for the consummation of the transactions contemplated by this Agreement or for the compliance by American Water Works with the provisions of the Support Agreement in connection with the issuance and sale of the Notes by the Company.

(e) Observance of Statutes and Orders. The execution, delivery and performance of the Support Agreement and this Agreement and the issuance and sale of the Notes in accordance with this Agreement and compliance with the terms and provisions of this Agreement, the Notes and the Support Agreement will not result in a breach or violation of or conflict with any of the terms and provisions of, or constitute a default under, (i) any statute, any rule, regulation, order, judgment or decree of any governmental agency or body or any court, domestic or foreign, having jurisdiction over the Company, American Water Works or any other Subsidiary or any of their respective properties, or (ii) any agreement or instrument to which the Company, American Water Works or any such other Subsidiary is a party or by which the Company, American Water Works or any such other Subsidiary is bound or to which any of the properties of the Company, American Water Works or any such other Subsidiary is subject, or (iii) the charter or by-laws of the Company, American Water Works or any such other Subsidiary, except in each case (other than with respect to such charter or by-laws) for such breaches, violations or defaults that would not reasonably be expected to have a Material Adverse Effect. The Company has full corporate power and corporate authority to authorize, issue and sell the Notes as contemplated by this Agreement.

(f) Authorization by American Water Works. This Agreement and the Support Agreement have been duly authorized, executed and delivered by American Water Works and, assuming due authorization, execution and delivery of this Agreement by the Purchaser, such agreements constitute valid and legally binding obligations of American Water Works enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(g) Title to Properties; Leases. Except as disclosed in the Disclosure Documents, the Company, American Water Works and the Subsidiaries have good and marketable title to all real properties and all other properties and assets owned by them that are necessary to the conduct of their

respective businesses as presently conducted, in each case free from liens, encumbrances and defects that would materially affect the value thereof or materially interfere with the use made or to be made thereof by them; and except as disclosed in the Disclosure Documents, the Company, American Water Works and the Subsidiaries hold any leased real or personal property that are necessary to the conduct of their respective businesses as presently conducted under valid and enforceable leases with no exceptions that would materially interfere with the use made or to be made thereof by them.

(h) Licenses, Permits. The Company, American Water Works and the other Subsidiaries possess adequate certificates, authorities or permits issued by appropriate governmental agencies or bodies necessary to conduct in all material respects the businesses now operated by them and have not received any notice of proceedings relating to the revocation or modification of any such certificate, authority or permit that, if determined adversely to the Company, American Water Works or any of the other Subsidiaries, would individually or in the aggregate reasonably be expected to have a Material Adverse Effect.

(i) Labor Disputes. No labor dispute with the employees of the Company, American Water Works or any other Subsidiary exists or, to the knowledge of the Company or American Water Works, is imminent, that would reasonably be expected to have a Material Adverse Effect.

(j) Patents and Trademarks. The Company, American Water Works and the other Subsidiaries own, possess or can acquire on reasonable terms, adequate trademarks, trade names and other rights to inventions, know-how, patents, copyrights, confidential information and other intellectual property (collectively, "intellectual property rights") necessary to conduct the businesses now operated by them or presently employed by them, except where the failure to own, possess or acquire such intellectual property rights would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect; and none of the Company, American Water Works, or any other Subsidiary has received any notice of infringement of or conflict with asserted rights of others with respect to any intellectual property rights that, if determined adversely to the Company, American Water Works or any other Subsidiary, would individually or in the aggregate reasonably be expected to have a Material Adverse Effect.

(k) Environmental Matters. Except as disclosed in the Disclosure Documents and as set forth in Section

3.01(j) of the Company Disclosure Schedule to the Merger Agreement, neither the Company, American Water Works nor any of the other Subsidiaries is in violation of any statute, any rule, regulation, decision or order of any governmental agency or body or any court, domestic or foreign, relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environment or human exposure to hazardous or toxic substances (collectively, "environmental laws"), owns or operates any real property contaminated with any substance that is subject to any environmental laws, is liable for any off-site disposal or contamination pursuant to any environmental laws, or is subject to any claim relating to any environmental laws, which violation, contamination, liability or claim would individually or in the aggregate reasonably be expected to have a Material Adverse Effect; and neither the Company nor American Water Works is aware of any pending investigation which might lead to such a claim.

(l) Litigation; Observance of Agreements, Statutes and Orders. Except as disclosed in the Disclosure Documents and as set forth in Section 3.01(g) of the Company Disclosure Schedule to the Merger Agreement, there are no pending actions, suits or proceedings against or affecting the Company, American Water Works or any of the Subsidiaries or any of their respective properties that, if determined adversely to the Company, American Water Works or any of the Subsidiaries, would individually or in the aggregate reasonably be expected to have a Material Adverse Effect, or that are otherwise material in the context of the sale of the Notes; and no such actions, suits or proceedings are, to the Company's or American Water Works' knowledge, threatened. None of American Water Works, the Company or any other Subsidiary is, to the knowledge of American Water Works or the Company, in default under any term of any agreement or instrument to which it is a party or by which it is bound, or any order, judgment, decree or ruling of any court, arbitrator or governmental authority or is in violation of any applicable law, ordinance, rule or regulation (including, without limitation, environmental laws) of any governmental authority, which default or violation, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect.

(m) Financial Statements. The financial statements included in the Disclosure Documents present fairly in all material respects the financial position of American Water Works and its consolidated subsidiaries as of the dates

shown and their results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with GAAP applied on a consistent basis, except as otherwise disclosed therein.

(n) **Absence of Material Adverse Change.** Except as disclosed in the Disclosure Documents filed prior to the date of this Agreement, since the date of the latest audited financial statements included in the Disclosure Documents filed prior to the date of this Agreement there has been no development or event that would reasonably be expected to result in a Material Adverse Effect and, except as disclosed in or contemplated by the Disclosure Documents and as disclosed in or contemplated by Section 3.01(f) of the Merger Agreement, there has been no dividend or distribution of any kind declared, paid or made by American Water Works on any class of its capital stock.

(o) **Investment Company.** None of American Water Works, the Company or any other Subsidiary is or, after giving effect to the sale of the Notes and the application of the proceeds thereof, will be an "investment company" as defined in the Investment Company Act of 1940 (the "1940 Act"). The Company has received an order from the Commission exempting it from all provisions of the 1940 Act, a copy of which has been delivered to the Purchaser. None of American Water Works, the Company or any other Subsidiary is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, or the Federal Power Act, as amended.

(p) **Private Offering.** Neither American Water Works nor the Company has, directly or indirectly, sold or offered, or attempted to offer or dispose of, any of the Notes to or solicited any offers to buy any of the Notes from, or otherwise approached or negotiated in respect thereof with, any Person, other than the Purchaser.

(b) **ERISA.** Neither American Water Works nor any Subsidiary has incurred any accumulated funding deficiency within the meaning of ERISA; and neither American Water Works nor any Subsidiary has incurred any material liability to the PBGC established under ERISA in connection with any employee pension benefit plan established or maintained by American Water Works or any Subsidiary other than for premium payments, all of which have been made when due.

(q) **Use of Proceeds; Margin Regulations.** The Company will use the proceeds from the sale of the Notes to repay short-term borrowings and for general corporate purposes. No part of the proceeds from the sale of the Notes

hereunder will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve American Water Works or the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220).

Neither American Water Works nor the Company owns any margin stock in an amount in excess of 5% of consolidated total assets. As used in this paragraph, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in said Regulation U.

Section 7. REPRESENTATIONS OF THE PURCHASER.

Section 7.1. Purchase for Investment. The Purchaser represents that it is purchasing the Notes for its own account and not with a view to the distribution thereof that would violate the Securities Act. The Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law.

Section 2. INFORMATION AS TO AMERICAN WATER WORKS AND THE COMPANY.

Section 7.2. Financial and Business Information. American Water Works and the Company, as the case may be, shall deliver to each holder of Notes that is an Institutional Investor:

- (a) Quarterly Statements. Within 60 days after the end of each of the first three quarterly fiscal periods of each year or within 10 days of filing with the Securities and Exchange Commission, whichever is earlier:
 - (i) a comparative consolidated balance sheet of American Water Works and its Subsidiaries, as at the end of each such quarterly fiscal period and as of the end of the immediately preceding fiscal year; and
 - (ii) comparative consolidated statements of income and retained earnings of American Water Works and its Subsidiaries, for the three months then ended and for the portion of the fiscal year to the end of such quarterly period and for the corresponding periods of the previous fiscal year and a comparative consolidated statement of changes in cash flows of American Water Works and its Subsidiaries, for the portion of the fiscal year to the end of such quarterly period and for the corresponding period of

the previous fiscal year;
all in reasonable detail and accompanied by a certificate of a Senior Financial Officer of American Water Works that such financial statements have been prepared in accordance with GAAP and fairly present, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows; provided that delivery within the time period specified above of copies of the American Water Works Quarterly Report on Form 10-Q for such quarter prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a).

(b) Annual Statements. Within 100 days after end of each fiscal year or within 10 days of filing with the Securities and Exchange Commission, whichever is earlier:

(i) a comparative consolidated balance sheet of American Water Works and its Subsidiaries as at the end of such year and the previous fiscal year; and

(ii) comparative consolidated statements of income, surplus, retained earnings and cash flows of American Water Works and its Subsidiaries for such year and for the previous fiscal year;

all in reasonable detail and in the case of the consolidated statements certified by independent accountants to have been prepared in accordance with GAAP and fairly present, in all material respects, the financial position of the companies being reported on and their results of operations and cash flows; provided that the delivery within the time period specified above of the Company's Annual Report on Form 10-K for such fiscal year (together with the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act (to the extent required to be filed)) prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(b).

(c) Balance Sheet of Company. Concurrently with the delivery of the financial statements referred to in paragraphs (a) and (b) of this Section 7.1, the Company shall deliver to holders of the Notes an unaudited balance sheet of the Company, as at the end of each such quarterly or annual fiscal period and as of the end of the immediately preceding fiscal year, all in reasonable detail and accompanied by a certificate of a Senior Financial Officer of American Water Works that such financial statements have been prepared in accordance with GAAP.

(d) Statement as to Default, Notices. Concurrently with the delivery of the financial statements referred to in this Section 7.1, a certificate, signed by a Senior Financial Officer of the Company and American Water Works stating whether or not to the best knowledge of the signers thereof the Company or American Water Works, as the case may be, is in Default in the performance and observance of any of the terms, provisions and conditions of this Agreement and, if the Company or American Water Works shall be in Default, specifying all such Defaults and the nature and status thereof of which they may have knowledge. In addition, the Company or American Water Works, as applicable, will deliver to the holders of the Notes, within ten days after the occurrence thereof, written notice of (i) any Default pursuant to Section 11 and (ii) any event or any contest that if adversely determined would result in the occurrence of an Event of Default under Section 11(g).

(e) Public Information. Promptly upon transmission thereof, copies of such financial statements and reports as American Water Works shall send to the Securities and Exchange Commission, the New York Stock Exchange or to its stockholders in any general mailing.

(f) Requested Information. With reasonable promptness, such other data and information relating to the business, operations, affairs, financial condition, assets or properties of American Water Works, the Company or any other Subsidiary or relating to the ability of the Company or American Water Works to perform its respective obligations hereunder and under the Notes, as from time to time may be reasonably requested by any such holder of Notes.

(d) Deliveries Under the Merger Agreement. In the event the information required to be delivered by any of paragraphs (a), (b) or (c) of this Section 7.1 is delivered to the Purchaser pursuant to the terms of the Merger Agreement, such delivery shall be deemed to satisfy the requirements of such paragraph of this Section 7.1 with regard to the Purchaser.

Section 7.3. Inspection. American Water Works will permit any Institutional Investor that is a holder of 10% or more of the aggregate principal amount of any series of the outstanding Notes, and any agents or representatives of such holder designated by such holder, at all reasonable intervals and places and upon reasonable prior written notice, to (i) examine the books of account, records, reports and other papers of American Water Works and its Subsidiaries and to make copies and

extracts therefrom for the purpose of determining whether American Water Works is complying with the terms and provisions of this Agreement, (ii) visit and inspect, under the guidance of American Water Works, the properties of American Water Works or of any of its Subsidiaries and (iii) discuss its or their affairs, finances and accounts with, and be advised as to the same by, its or their officers; provided that unless an Event of Default has occurred and is continuing no such visit to, inspection of or discussions with officers of, any Subsidiary shall be permitted if the book value of American Water Works' investment therein (as determined in accordance with GAAP) is less than 2% of all of American Water Works' investments in its Subsidiaries. So long as any Default or Event of Default shall have occurred and shall be continuing, all expenses incurred by an Institutional Investor in the exercise of any rights under this Section shall be borne by the Company.

Section 8. PREPAYMENT OF THE NOTES.

Section 8.1. Final Maturity. (g) The entire unpaid principal amount of each Fixed Rate Note shall become due and payable on June 12, 2007.

(a) The entire unpaid principal amount of each Floating Rate Note shall become due and payable on June 26, 2003.

Section 8.2. Optional Prepayments with Make-Whole Amount. The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes at 100% of the principal amount so prepaid, and accrued interest thereon to the date of such prepayment, plus the Make-Whole Amount determined in accordance with Section 8.6 for the prepayment date with respect to such principal amount. The Company will give each holder of Notes to be prepaid written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.3), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of the series of Notes to be prepaid a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the

specified prepayment date. The holders of the Notes then to be prepaid shall be reasonably satisfied that such calculation of the Make-Whole Amount has been made in accordance with this Section 8.

Section 8.3. Allocation of Partial Prepayments. In the case of each partial prepayment of the Notes, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes of that series at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

Section 8.4. Maturity; Surrender, etc. In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company upon written request and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

Section 8.5. Purchase of Notes. The Company will not and will not permit any Affiliate to purchase, redeem, prepay or otherwise acquire, directly or indirectly, any of the outstanding Notes except (a) upon the payment or prepayment of the Notes in accordance with the terms of this Agreement and the Notes or (b) pursuant to an offer to purchase made by the Company or an Affiliate pro rata to the holders of all Notes of a series at the time outstanding upon the same terms and conditions. Any such offer shall provide each holder with sufficient information to enable it to make an informed decision with respect to such offer, and shall remain open for at least ten Business Days. If the holders of more than 20% of the principal amount of a series of the Notes then outstanding accept such offer, the Company shall promptly notify the remaining holders of such series of Notes of such fact and the expiration date for the acceptance by holders of Notes of such offer shall be extended by the number of days necessary to give each such remaining holder at least ten Business Days from its receipt of such notice to accept such offer. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Agreement and no Notes may be issued in substitution or exchange for any such Notes.

Section 8.6. Make-Whole Amount. The term "Make-Whole

Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% (or if at any time the Company shall agree to a lesser spread over a U.S. Treasury obligation for purposes of calculating the make whole amount or any other yield maintenance formula in connection with the issuance of debt obligations of the Company having a weighted average life to maturity which is five or more years from the date of issue of such debt obligation, then such lesser spread shall automatically be substituted for .50% from and after the issuance of such other debt obligation and the Company shall promptly so notify the holders of such change) over the yield to maturity implied by (i) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "PX-1" on the Bloomberg Financial Market Screen (or such other display as may replace "PX-1" on the Bloomberg Financial Market Screen) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding

the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or has become or is declared to be immediately due and payable pursuant to Section 12.1 as the context requires.

Section 9. AFFIRMATIVE COVENANTS.

Section 9.1. Corporate Existence. (a) So long as any of the Notes are outstanding, subject to Sections 10.2 and 10.3, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its rights (charter and statutory) and franchises.

(b) So long as any of the Notes are outstanding, except as contemplated by the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof) and subject to Sections 10.2 and 10.3 hereof, American Water Works will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

Section 9.2. Support Agreement. So long as any of the Notes are outstanding, each of the Company and American Water Works covenants and agrees for the benefit of the holders of the Notes that (1) it will perform its respective obligations under the Support Agreement, and (2) it will not agree to any amendment or termination of the Support Agreement as in effect on the date of this Agreement, except in accordance with the terms of the Support Agreement as in effect on the date of this Agreement. The holders of the Notes are entitled to the benefits of the Support Agreement available to Lenders (as defined in the Support Agreement), it being understood and agreed that the Notes constitute Debt (as defined in the Support Agreement) for purposes of the Support Agreement. If the Company and American Water Works shall at any time modify the obligations of American Water Works under the Support Agreement (whether by amendment or supplement thereto) for the benefit of any holder of any Debt of the Company, the Company and American Water Works shall also provide in such amendment or supplement that the benefits of such modification extend to the Notes and the holders thereof. If American Water Works shall at any time enter into another form of support agreement or guaranty of indebtedness of the Company (or any other Subsidiary that is primarily engaged in the financing of the business of American Water Works or its utility Subsidiaries) that is to be sold in a public offering that has been registered under the Securities Act, then American Water Works shall also enter into an amendment of the Support Agreement or guaranty providing the same benefits to the Notes and the holders thereof.

Section 9.3. Maintenance of Properties. So long as any of the Notes are outstanding, except as permitted pursuant to Section 4.01(a)(v) of the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof), each of the Company and American Water Works will cause all properties used or held for use in the conduct of its respective businesses, and in the case of American Water Works, will cause all properties used or held for use in the business of its Subsidiaries, to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements

thereof, all as may be necessary so that the businesses carried on in connection therewith may be properly and advantageously conducted at all times; provided, that nothing in this Section 9.3 shall prevent the Company or American Water Works from discontinuing the operation or maintenance of any of such properties or disposing of them if such discontinuance or disposal is, in the judgment of the Company or American Water Works, desirable in the conduct of its business and not disadvantageous in any material respect to the holders of Notes.

Section 9.4. Payment of Taxes and Other Claims. So long as any of the Notes are outstanding, each of the Company and American Water Works will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon it or upon the income, profits or property of the Company or American Water Works, and (2) all lawful claims for labor, materials and supplies which, if unpaid, would by law become a lien upon the property of the Company or American Water Works; provided, that neither the Company nor American Water Works shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which the Company or American Water Works has set aside on its books adequate reserves with respect thereto in accordance with GAAP.

Section 9.5. Nature of Business of the Company. So long as any of the Notes are outstanding, the Company will at all times remain engaged solely in the business of financing the capital requirements of American Water Works and its utility Subsidiaries and activities reasonably related thereto, including, without limitation, cash management activities, all treasury activities and loan administration for such subsidiaries.

Section 9.6. Rating of the Notes. In the event that the Merger Agreement is terminated pursuant to Article VII thereof, American Water Works and the Company shall use their best reasonable efforts to obtain a rating for the Notes from Standard & Poor's Rating Group and Moody's Investor Service, Inc. within 30 days of such termination; provided that if at such time either such rating agency shall cease to be in the business of rating corporate debt, an organization as shall be mutually agreed by American Water Works, the Company and the Purchaser shall be substituted therefor.

Section 9.7. Transfer of Notes. In the event that the Merger Agreement is terminated pursuant to Article VII thereof, then at such time as the Purchaser notifies American Water Works that it intends to transfer any of the Notes it holds, (i)

American Water Works shall actively assist the Purchaser in transferring such notes to a third party, which assistance shall include, but is not limited to (a) assisting in the preparation of marketing materials to be used in connection with the transfer of the Notes and (b) the hosting of one or more meetings of prospective transferees and (ii) none of American Water Works, the Company or any other Subsidiary shall offer, sell, contract to sell or otherwise dispose of any securities substantially similar to the Notes so long as such offer, sale or disposition would impair the ability of the Purchaser to transfer the Notes; provided, however, that such obligations of American Water Works are subject to the condition that such transfer by the Purchaser shall not be in violation of any applicable federal or state securities laws.

Section 10. NEGATIVE COVENANTS.

Section 10.1. Restrictions on Liens. (h) The Company shall not issue, assume or guarantee any indebtedness for money borrowed (hereinafter in this Section 10.1 referred to as "Debt"), secured by any mortgage, security interest, pledge, lien or other encumbrance (hereinafter in this Section 10.1 called "mortgage" or "mortgages") upon any property of the Company without in any such case effectively securing, prior to or concurrently with the issuance, assumption or guarantee of any such Debt, the Notes (together with, if the Company shall so determine, any other Debt of or guaranteed by the Company ranking equally with the Notes and then existing or thereafter created) equally and ratably with (or prior to) such Debt; provided, that the foregoing restrictions shall not apply to nor prevent the creation or existence of:

(i) mortgages on any property, acquired, constructed or improved by the Company after the date of this Agreement, and any improvements thereon, accessions thereto or other property acquired or constructed for use in connection therewith or related thereto, that are created or assumed prior to or contemporaneously with, or within 180 days after, such acquisition or completion of such construction or improvement, or within one year thereafter pursuant to a firm commitment for financing arranged with a lender or investor within such 180-day period, to secure or provide for the payment of all or any part of the purchase price of such property or the cost of such construction or improvement incurred after the date of this Agreement, or, in addition to mortgages contemplated by clauses (ii) and (iii) below, mortgages on any property existing at the time of acquisition thereof; provided, that the mortgages shall not extend to any property theretofore owned by the Company other than, in the case of any such construction or

improvement, (1) unimproved real property on which the property so constructed or the improvement is located, (2) other property (or improvement thereon) that is an improvement to or is acquired or constructed for use in connection therewith or related thereto, (3) any right and interest under any agreement or other documents relating to the property being so constructed or improved or such other property and (4) the stock of any Subsidiary created or maintained for the primary purpose of owning the property so constructed or improved;

(ii) existing mortgages on any property of a Person which is acquired by, merged with or into or consolidated with the Company; provided, that mortgages shall not extend to any property theretofore owned by the Company;

(iii) mortgages, security interests, pledges, liens or other encumbrances to secure Debt of the Company to American Water Works;

(iv) mortgages, security interests, pledges, liens or other encumbrances in favor of the United States of America, any State, any foreign country or any department, agency or instrumentality or political subdivision of any such jurisdiction, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the property subject to such mortgages, security interests, pledges, liens or other encumbrances including, without limitation, mortgages to secure Debt of the industrial revenue bond type;

(v) mortgages to secure Debt of the Company maturing within 12 months from the creation thereof and incurred in the ordinary course of business;

(vi) mortgages existing on the date of this Agreement; and

(vii) mortgages for the purposes of extending, renewing or replacing in whole or in part Debt secured by any mortgage referred to in the foregoing clauses (i) to (vi), inclusive, or this clause (vii); provided, that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the property or Debt that secured the mortgage so extended, renewed or replaced (plus improvements on such property).

Notwithstanding the foregoing, nothing herein shall be deemed (1) to prohibit the Company from assuming or guaranteeing any Debt of American Water Works or any Subsidiary of American Water

Works (other than the Company), which Debt is secured by assets of American Water Works or any Subsidiary of American Water Works (other than the Company), or (2) to prohibit the Company (or a Subsidiary of the Company) from securing Debt with accounts receivable in an accounts receivable financing.

(b) The provisions of subsection (a) of this Section 10.1 shall not apply to the issuance, assumption or guarantee by the Company of Debt secured by a mortgage that would otherwise be subject to the foregoing restrictions up to an aggregate amount that does not at the time exceed 10% of Consolidated Net Tangible Assets.

(c) If at any time the Company shall issue, assume or guarantee any Debt secured by any mortgage and if subsection (a) of this Section 10.1 requires that the Notes be secured equally and ratably with such Debt, the Company will promptly deliver to holders of the Notes an Officers' Certificate stating that, and Opinion of Counsel to the effect that, the covenants of the Company contained in subsection (a) of this Section 10.1 have been complied with.

Section 10.2. Company and American Water Works May Consolidate, Etc., Only on Certain Terms. Except as contemplated pursuant to the terms of the Merger Agreement (so long as the Merger Agreement has not been terminated pursuant to Article VII thereof), neither the Company nor American Water Works shall consolidate with or merge into any other Corporation or convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless:

(1) the Corporation formed by any such consolidation or into which it is merged or the Person that acquires by conveyance or transfer, or that leases, its properties and assets substantially as an entirety shall be a Corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, in the case of the Company, the due and punctual payment of the principal of (and premium, if any) and interest on the Notes, the performance of every covenant of this Agreement on the part of the Company or American Water Works, as applicable, and in the case of American Water Works, all the obligations under the Support Agreement to be performed or observed;

(2) immediately after giving effect to such transaction, no Event of Default, and no event that, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(3) the Company or American Water Works, as applicable, has delivered to the holders of the Notes an Officers' Certificate and an Opinion of Counsel, each

stating that such consolidation, merger, conveyance, transfer or lease complies with this Section 10.2 and that all conditions precedent herein provided for relating to such transaction have been complied with.

The Company covenants and agrees that if, upon its consolidation with or merger into any other Corporation, or upon any consolidation or merger of any other Corporation with or into it, or upon any sale or conveyance of all or substantially all of its property and assets to any other Corporation, any of its property or any property of its Subsidiaries, if any, would thereupon become subject to any mortgage, security interest, pledge, lien or other encumbrance not permitted by Section 10.1 hereof, prior to or concurrently with such consolidation, merger, sale or conveyance, it will effectively secure the Notes (equally and ratably with (or prior to) any other indebtedness of or guaranteed by it then entitled thereto) by a direct lien, on such of its property or such property of a Subsidiary or such indebtedness issued by a Subsidiary, prior to all liens other than any theretofore existing thereon.

Section 10.3. Successor Corporation Substituted. Upon any consolidation by the Company or American Water Works with or merger by the Company or American Water Works into any other Corporation or any conveyance, transfer or lease of either the Company's or American Water Works' properties and assets substantially as an entirety in accordance with Section 10.2, the successor Corporation formed by such consolidation or into which it is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company or American Water Works, as applicable, under this Agreement with the same effect as if such successor Corporation had been named as the Company or American Water Works, as applicable, herein, and thereafter, except in the case of a lease, the predecessor Corporation shall be relieved of all obligations and covenants under this Agreement, the Notes and, in the case of American Water Works, the Support Agreement.

Section 11. EVENTS OF DEFAULT.

"Event of Default" with respect to a series of Notes means any one of the following events with respect to such series (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the Company defaults in the payment of any interest upon any Note when it becomes due and payable and continuance of such default for a period of 10 days; or

- (b) the Company defaults in the payment of the principal of (or Make Whole Amount, if any, on) any Note when the same becomes due and payable, whether at maturity or a date fixed for prepayment or by declaration of acceleration or otherwise and continuance of such default for a period of three Business Days thereafter; or
- (c) the Company or American Water Works defaults in the performance of or breaches any covenant or warranty of the Company or American Water Works, as the case may be, in this Agreement or the Support Agreement (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section 11 specifically dealt with), and continuance of such default or breach for a period of 90 days after the earlier of (i) a Responsible Officer of American Water Works or the Company obtaining actual knowledge of such default and (ii) written notice, to the Company and American Water Works by the holders of at least 33% in aggregate principal amount of such series of Notes, specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; provided, however, that, except with respect to defaults under or breaches of the covenants contained in Section 9.4 or Section 10.1, the holder of such principal amount of Notes shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company or American Water Works within such period and is being diligently pursued; or
- (d) the Company or American Water Works defaults under any bond, debenture, note or other evidence of indebtedness for money borrowed or under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or American Water Works, whether such indebtedness now exists or shall hereafter be created, which default shall constitute a failure to pay in excess of \$20,000,000 of the principal or interest of such indebtedness when due and payable after the expiration of any applicable grace period with respect thereto or shall have resulted in such indebtedness in any amount in excess of \$20,000,000 becoming or being declared due and payable prior to the date on which it would otherwise have become due and payable, without such indebtedness having been discharged or such acceleration having been rescinded or annulled within a period of 60 days after a Responsible Officer of the Company or American Water Works obtains actual knowledge thereof; or
- (e) the entry by a court having jurisdiction in the

premises of (A) a decree or order for relief in respect of any of the Company or American Water Works in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging any of the Company or American Water Works a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than the Company, American Water Works, or any of their Affiliates seeking reorganization, arrangement, adjustment or composition of or in respect of any of the Company or American Water Works under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for any of the Company or American Water Works or for any substantial part of the property of any of the Company or American Water Works or ordering the liquidation or winding up of the affairs of any of the Company or American Water Works and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(f) the commencement by the Company or American Water Works of a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of it in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official in respect of it or any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or its admission in writing of its inability to pay its debts generally as they become due, or its taking of corporate action in furtherance of any such action; or

(g) the Support Agreement shall cease to be in full force and effect for any reason whatsoever, including, without limitation, a final and nonappealable determination by any governmental body or court that the Support Agreement is invalid, void or unenforceable, or American

Water Works shall contest or deny in writing the validity or enforceability of any provision of, or obligation under, the Support Agreement.

Section 12. REMEDIES ON DEFAULT, ETC.

Section 12.1. Acceleration of the Notes. (a) If an Event of Default with respect to American Water Works or the Company described in paragraph (e) or (f) of Section 11 has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(a) If any other Event of Default described in Section 11 has occurred and is continuing with respect to a series of Notes, any holder or holders of more than 50% in principal amount of such series of Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company and American Water Works, declare all the Notes of such series then outstanding to be immediately due and payable.

(b) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing with respect to a series of Notes, any holder or holders of such series of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company and American Water Works, declare all the Notes of such series held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (i) all accrued and unpaid interest thereon and (ii) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. American Water Works and the Company acknowledge, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

Section 12.2. Other Remedies. If any Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other

appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

Section 12.3. Rescission. At any time after any Note of a series has been declared due and payable pursuant to clause (b) or (c) of Section 12.1, the holders of not less than 67% in principal amount of the Notes of such series then outstanding, by written notice to the Company and American Water Works, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on such Notes, all principal of and Make-Whole Amount, if any, on any such Notes that are due and payable and are unpaid other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of such Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

Section 12.4. No Waivers or Election of Remedies, Expenses, etc. No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

Section 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES.

Section 13.1. Registration of Notes. The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due

presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

Section 13.2. Transfer and Exchange of Notes. Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or his attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes of the applicable series (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be in the form of Exhibit 1-A or 1-B hereto, as applicable. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$5,000,000, provided that if necessary to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$5,000,000.

Section 13.3. Replacement of Notes. Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a nominee for, the original Purchaser or is an Institutional Investor, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and

cancellation thereof,
the Company, at its own expense, shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

Section 14. PAYMENTS ON NOTES.

Section 14.1. Place of Payment. Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made at the principal office of PNC Bank, National Association, in New York, New York.

Section 14.2. Home Office Payment. So long as the Purchaser or the Purchaser's nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest at the principal office of PNC Bank, National Association, in New York, New York and by the method specified on the first page hereof, or by such other method or at such other address as the Purchaser shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, the Purchaser shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by the Purchaser or the Purchaser's nominee, the Purchaser will, at its election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by the Purchaser under this Agreement and that has made the same agreement relating to such Note as the Purchaser has made in this Section 14.2.

Section 15. EXPENSES, ETC.

Section 15.1. Transaction Expenses. Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of Cravath, Swaine & Moore, special counsel to the

Purchaser, directly related to this Agreement and the actions contemplated hereby but excluding, (i) with respect to (a) below, the fees and expenses of any other counsel to the Purchaser, (ii) with respect to (b) below, the fees and expenses of more than one counsel to the Purchaser and (iii) any fees and expenses incurred by or in connection with a transferee of the Purchaser) incurred by the Purchaser in connection with (a) the negotiation, preparation, execution, and delivery of this Agreement and the Notes, (b) any amendments, waivers or consents under or in respect of this Agreement, the Support Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), (c) the reasonable costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement, the Support Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement, the Support Agreement or the Notes, or by reason of being a holder of any Note, and (d) the reasonable costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of American Water Works or the Company or any other Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby, by the Support Agreement and by the Notes. The Company will pay, and will hold the Purchaser harmless from, all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by or on behalf of the Purchaser).

Section 15.2. Survival. The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

Section 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by the Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of the Purchaser or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of American Water Works or the Company pursuant to this Agreement shall be deemed representations and warranties of American Water Works or the Company, as the case may be, under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and

understanding among the Purchaser, American Water Works and the Company and supersede all prior agreements and understandings relating to the subject matter hereof.

Section 17. AMENDMENT AND WAIVER.

Section 17.1. Requirements. This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of American Water Works, the Company and the Required Holders, except that (a) no amendment or waiver of any of the provisions of Section 1, 2, 3, 4 or 21 hereof, or any defined term (as it is used therein), will be effective as to any holder of a Note unless consented to by such holder in writing, and (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or change the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17 or 20.

Section 17.2. Solicitation of Holders of Notes.

(a) Solicitation. American Water Works and the Company will provide each holder of the Notes (irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. American Water Works and the Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes of a series affected thereby promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. Neither American Water Works nor the Company will, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof or of the Notes unless such remuneration is concurrently paid, or security is

concurrently granted, on the same terms, ratably to each holder of Notes of such series then outstanding even if such holder did not consent to such waiver or amendment.

(c) Consent in Contemplation of Transfer. At any time prior to a Public Offering, any consent made pursuant to this Section 17.2(c) by a holder of Notes that has transferred or has agreed to transfer its Notes to American Water Works or the Company or any other Subsidiary or any Affiliates of American Water Works and has provided or has agreed to provide such written consent as a condition to such transfer shall be void and of no force or effect except solely as to such holder, and any amendments effected or waivers granted or to be effected or granted that would not have been or would not be so effected or granted but for such consent (and the consents of all other holders of Notes that were acquired under the same or similar conditions) shall be void and of no force or effect except solely as to such holder.

Section 17.3. Binding Effect, etc. Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note, as applicable, and upon American Water Works and the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between American Water Works or the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

Section 17.4. Notes Held by American Water Works or the Company, etc. Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by American Water Works or the Company or any of their respective Affiliates shall be deemed not to be outstanding.

Section 18. NOTICES.

All notices and communications provided for hereunder shall

be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage prepaid), or (c) by a recognized overnight delivery service (with charges prepaid). Any such notice must be sent:

(i) if to the Purchaser or the Purchaser's nominee, to the Purchaser or the Purchaser's nominee at the address set forth on the first page hereof, or at such other address as the Purchaser or the Purchaser's nominee shall have specified to American Water Works and the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to American Water Works and the Company in writing, or

(iii) if to American Water Works or the Company, as the case may be, at the address set forth at the beginning hereof to the attention of its Senior Financial Officer, or at such other address as American Water Works or the Company shall have specified to the holder of each Note in writing.

Notices under this Section 18 will be deemed given only when actually received.

Section 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by the Purchaser at any Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to the Purchaser, may be reproduced by the Purchaser by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and the Purchaser may destroy any original document so reproduced. American Water Works and the Company agree and stipulate that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by the Purchaser in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit American Water Works or the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the

inaccuracy of any such reproduction.

Section 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to a holder of any Note or its representatives by or on behalf of American Water Works or the Company or any other Subsidiary, or any of their respective representatives, in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such holder as being confidential information of American Water Works or the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such holder or any Person acting on such holder's behalf, (c) otherwise becomes known to such holder other than through disclosure by American Water Works or the Company or any other Subsidiary or any of their respective representatives or (d) constitutes financial statements delivered to such holder under Section 7.1 that are otherwise publicly available. Each holder of a Note, other than the Purchaser (so long as the letter agreement dated July 26, 2001 among the Purchaser, Thames Water plc and American Water Works is still in effect), will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such holder in good faith to protect confidential information of third parties delivered to such holder, provided that such holder may deliver or disclose Confidential Information to (i) such holder's directors, trustees, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by the Notes), (ii) such holder's financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20, (iii) any other holder of any Note, (iv) any Institutional Investor to which such holder sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing with the Company prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (v) any Person from which such holder offers to purchase any security of the Company (if such Person has agreed in writing with the Company prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20), (vi) any federal or state regulatory authority having jurisdiction over such holder, or (vii) any other Person to which such delivery or disclosure may be required in the

reasonable opinion of such holder (w) to effect compliance with any law, rule, regulation or order applicable to such holder, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such holder is a party or (z) if an Event of Default has occurred and is continuing, to the extent such holder may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under the Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by American Water Works or the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with American Water Works and the Company embodying the provisions of this Section 20. Each holder of a Note recognizes its responsibility for compliance with applicable securities laws and regulations in connection with its use of non-public information regarding American Water Works and its Subsidiaries.

Section 21. SUBSTITUTION OF PURCHASER.

The Purchaser shall have the right to substitute any one of the Purchaser's Affiliates as the purchaser of the Notes, by written notice to American Water Works and the Company, which notice shall be signed by both the Purchaser and the Purchaser's Affiliate, shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6; provided that such notice shall also contain the agreement of the Purchaser to unconditionally and irrevocably guarantee the obligations of the Purchaser's Affiliate under this Agreement. Upon receipt of such notice, wherever the word "Purchaser" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of the Purchaser. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to the Purchaser all of the Notes then held by such Affiliate, upon receipt by American Water Works and the Company of notice of such transfer, wherever the word "Purchaser" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to the Purchaser, and the Purchaser shall have all the rights of an original holder of the Notes under this Agreement.

Section 22. MISCELLANEOUS.

Section 22.1. Assumption by American Water Works or Subsidiary. American Water Works or a Subsidiary may directly assume, by a written instrument, executed and delivered to the holders of the Notes, in form satisfactory to the Required Holders, the due and punctual payment of the principal of (Make-Whole Amount, if any) and interest on all the Notes and the performance of every covenant of this Agreement on the part of the Company to be performed or observed. Upon any such assumption, American Water Works or such Subsidiary shall succeed to and be substituted for and may exercise every right and power of the Company under this Agreement with the same effect as if American Water Works or such Subsidiary had been named as the Company herein and the Company shall be released from its liability as obligor on the Notes; provided that, in the case of such assumption by a Subsidiary, that American Water Works' obligations under this Agreement (modified as aforesaid) remain in full force and effect and American Water Works and such Subsidiary shall have entered into a support agreement in the form of the Support Agreement, satisfactory to the Required Holders.

Section 22.2. Successors and Assigns. All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

Section 22.3. Entire Agreement. This Agreement, together with the Schedules and Exhibits hereto, along with the Notes constitute the entire agreement among the parties hereto with respect to the subject matter hereof. The terms hereof in no way amend, alter or otherwise modify the terms of the Merger Agreement and, except as expressly stated herein, the terms of the Merger Agreement in no way amend, alter or otherwise modify the terms hereof.

Section 22.4. Payments Due on Non-Business Days. Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

Section 22.5. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent

permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

Section 22.6. Construction. Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or that such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

Section 22.7. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

Section 22.8. Governing Law. This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York.

Section 22.9. No Right of Set-off. American Water Works and the Company each hereby expressly waive any and all right to set-off any amounts that may be owed, or may be claimed to be owed, to American Water Works or the Company by any Holder of any Note, including, but not limited to, amounts that may be owed or claimed to be owed to American Water Works under the Merger Agreement.

* * * * *

The execution hereof by the Purchaser shall constitute a contract among American Water Works, the Company and the Purchaser for the uses and purposes hereinabove set forth. This Agreement may be executed in any number of counterparts, each executed counterpart constituting an original but all together only one agreement.

Very truly yours,
AMERICAN WATER CAPITAL CORP.

By
Its

AMERICAN WATER WORKS
COMPANY, INC.

By
Its

The foregoing is hereby
agreed to as of the
date thereof.

RWE AKTIENGESELLSCHAFT

By
Its

DEFINED TERMS

As used herein, the following terms have the respective meanings set forth below or set forth in the Section hereof following such term:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"American Water Works" means the American Water Works Company, Inc., and any permitted successors or assigns thereto.

"Board of Directors" means either the board of directors of the Company or American Water Works, as the case may be, or any duly authorized committee thereof.

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City or Essen, Germany are required or authorized to be closed.

"Closing" is defined in Section 3.

"Company" means the American Water Capital Corp., and any permitted successors or assigns thereto.

"Confidential Information" is defined in Section 20.

"Consolidated Net Tangible Assets" means the total amount of assets appearing on a consolidated balance sheet of the Company and its subsidiaries less, without duplication, the following:

(a) all current liabilities (excluding any thereof that are by their terms extendable or renewable at the sole option of the obligor thereon without requiring the consent of the obligee to a date more than 12 months after the date of determination);

(b) all reserves for depreciation and other asset

valuation reserves but excluding any reserves for deferred Federal income taxes arising from accelerated amortization or otherwise; and

(c) all intangible assets such as goodwill, trademarks, trade names, patents and unamortized debt discount and expense carried as an asset on said balance sheet.

Consolidated Net Tangible Assets shall be determined in accordance with generally accepted accounting principles and as of a date not more than 90 days prior to the happening of the event for which such determination is being made.

"Corporation" includes any corporation, association, company, limited liability company or business trust.

"Default" means an event or condition the occurrence or existence of which would, with the lapse of time or the giving of notice or both, become an Event of Default.

"Default Rate" means, with respect to the Notes, the greater of (a) the prime (i.e. index or base) rate of interest published or publicly announced as such from time to time by PNC Bank, National Association, plus 2%; and (b) the rate of interest borne by the Notes prior to Default plus 2%.

"Disclosure Documents" shall mean the Registration Statement of the Company filed with the Securities and Exchange Commission on January 30, 2001 (including the documents incorporated by reference therein) and all forms, reports, schedules, statements and other documents required to be filed by the Company or American Water Works with the Securities and Exchange Commission since such date.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

"Event of Default" is defined in Section 11.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Fixed Rate Notes" is defined in Section 1.

"Floating Rate Notes" is defined in Section 1.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States of America.

"holder" means, with respect to any Note, the Person in whose name such Note is registered in the register maintained by the Company pursuant to Section 13.1.

"Institutional Investor" means (a) any original purchaser of a Note, (b) any holder of a Note holding more than 5% of the aggregate principal amount of the Notes then outstanding, and (c) any bank, trust company, savings and loan association or other financial institution, any pension plan, any investment

company, any insurance company, any broker or dealer, or any other similar financial institution or entity, regardless of legal form; provided, however that for the purposes of this Agreement, any holder of Notes that purchased such Notes in, or subsequent to, a Public Offering shall not be an Institutional Investor.

"Make-Whole Amount" is defined in Section 8.6.

"Material Adverse Effect" means a material adverse change or effect on (a) the business, assets, properties, condition (financial or otherwise) or results of operations of American Water Works and its Subsidiaries taken as a whole or (b) the ability of American Water Works or the Company to perform its respective obligations under this Agreement and the Notes, and, in the case of American Water Works, the Support Agreement or (c) the validity or enforceability of this Agreement, the Support Agreement or the Notes.

"Merger Agreement" means the Agreement and Plan of Merger, dated as of September 16, 2001, by and among RWE Aktiengesellschaft, Thames Water Aqua Holdings GMBH, Apollo Acquisition Company and American Water Works, as amended or modified from time to time.

"Notes" is defined in Section 1.

"Officer's Certificate" means a certificate of a Senior Financial Officer or of any other officer of American Water Works or the Company, as the case may be, whose responsibilities extend to the subject matter of such certificate.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company or American Water Works, as the case may be, and who shall be reasonably acceptable to the Required Holders.

"PBGCC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA or any successor thereto.

"Person" means an individual, partnership, corporation, limited liability company, association, trust, unincorporated organization, or a government or agency or political subdivision thereof.

"property" or "properties" means, unless otherwise specifically limited, real or personal property of any kind, tangible or intangible, choate or inchoate.

"Public Offering" means any sale or transfer of the Notes pursuant to a registration statement filed with the Securities and Exchange Commission pursuant to the Securities Act.

"Purchaser" means RWE Aktiengesellschaft.

"Required Holders" means, at any time, the holders of at least 51% in principal amount of the Fixed Rate Notes or Floating Rate Notes, as applicable, at the time outstanding (exclusive of Notes then owned by American Water Works, the

Company or any of their respective Affiliates which, for the avoidance of doubt, does not include the Purchaser or its Affiliates).

"Responsible Officer" means any Senior Financial Officer and any other officer of American Water Works or the Company, as the context requires, with responsibility for the administration of the relevant portion of this Agreement.

"Securities Act" means the Securities Act of 1933, as amended from time to time.

"Senior Financial Officer" means the senior financial officer, principal accounting officer, treasurer or controller of American Water Works or the Company, as the context requires.

"Subsidiary" means a Person more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by American Water Works or by one or more other Subsidiaries, or by American Water Works and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock or other security which ordinarily has voting power for the election of directors or similar officials, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Support Agreement" is defined in Section 1.

Exhibit 1-A

[FORM OF FIXED RATE NOTE]

AMERICAN WATER CAPITAL CORP.

5.65% SENIOR NOTE DUE JUNE 12, 2007

No. _____ [Date]

\$_____

For Value Received, the undersigned, American Water Capital Corp. (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____ or registered assigns, the principal sum of _____ Dollars on June 12, 2007 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 5.65% per annum from the date hereof, payable annually, on the 12th day of June of each year, commencing with June 12, 2003, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment

(including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable annually as aforesaid (or, at the option of the registered holder hereof, on demand), at the Default Rate. Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of PNC Bank, National Association, in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Agreement referred to below.

This Note is one of the Senior Notes (herein called the "Notes") issued pursuant to the Note Purchase Agreement, dated as of June 12, 2002 (as from time to time amended, the "Note Purchase Agreement"), among American Water Capital Corp., American Water Works Company, Inc. and the Purchaser named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.1 of the Note Purchase Agreement.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED, IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise. If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, in the amount (including any applicable Make-Whole

Amount) and with the effect provided in the Note Purchase Agreement.

The Notes and the holders thereof are entitled to the benefits of a Support Agreement (as defined in the Note Purchase Agreement) between American Water Capital Corp. and American Water Works Company, Inc.

[the remainder of this page has been left blank intentionally]

This Note and said Note Purchase Agreement are governed by and construed in accordance with the laws of New York.

AMERICAN WATER CAPITAL CORP.

By

Its

Exhibit 1-B

[FORM OF FLOATING RATE NOTE]

AMERICAN WATER CAPITAL CORP.

FLOATING RATE SENIOR NOTE DUE JUNE 26, 2003

No. _____ [Date]

\$ _____

For Value Received, the undersigned, American Water Capital Corp. (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to _____ or registered assigns, the principal sum of _____ Dollars on June 23, 2003 with interest (computed on the basis of the actual number of days in the relevant interest period and a 360-day year) (a) on the unpaid balance thereof at the Interest Rate (as defined below) from the date hereof, payable on [_____, 200____, _____, 200____, _____, 200____, and _____, 200____,] [to be adjusted depending on date of issuance] (each such date, an "Interest Payment Date"), and (b) to the extent

permitted by law, on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable on the applicable Interest Payment Date (or, at the option of the registered holder hereof, on demand), at the Default Rate.

The rate at which interest shall be payable on the Notes (the "Interest Rate") shall be a floating rate, which for each interest period shall be the Three-Month LIBOR Rate determined for that interest period plus 20 basis points (0.20%). The Interest Rate for the initial interest period shall be _____% (the "Initial Interest Rate"), which was calculated with reference to the Three-Month LIBOR Rate on the Interest Determination Date for the initial interest period, plus 20 basis points (0.20%).

The Company will reset the rate of interest on the Notes on each of [_____, 200___, _____, 200___ and _____, 200___] (each, an "Interest Reset Date"). [these dates will be the same as the first three Interest Payment Dates]

The Company shall determine the applicable Interest Rate on the Notes for the succeeding interest period on the date that is two London Business Days prior to the applicable Interest Reset Date (each an "Interest Determination Date"). The Interest Determination Date for the Initial Interest Rate was _____, 200___. [this date will be two London Business Days prior to the issue date]

The Interest Rate determined on an Interest Determination Date for the Notes (a) shall become effective on and as of the next succeeding Interest Reset Date and (b) shall be the rate at which interest is payable on the Notes for the interest period from and including the Interest Reset Date on which that Interest Rate becomes effective to but excluding the succeeding Interest Reset Date. The calculations of the Company in determining the Interest Rate will, in the absence of manifest error, be conclusive for all purposes and binding on the holders of the Notes.

"London Business Day" means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

"Three-Month LIBOR Rate" means, with respect to any Interest Reset Date, the rate for deposits in U.S. dollars having a three-month maturity which appears on the Down Jones Page 3750 (as defined below) as of 11:00 a.m., London time, on the Interest Determination Date immediately preceding such Interest Reset Date; provided, that if on any Interest Determination Date the applicable London interbank offered rate

for deposits in U.S. dollars having a three-month maturity does not appear on Dow Jones Page 3750, or if Dow Jones Page 3750 is not available, then the Three-Month LIBOR Rate will be determined on the basis of the rates at which deposits in U.S. dollars are offered by four major banks in the London interbank market (which banks are to be selected by the Company and shall be reasonably acceptable to the Purchaser) at approximately 11:00 a.m., London time, on such Interest Determination Date to prime banks in the London interbank market for deposits in U.S. dollars and having a three-month maturity and in a principal amount equal to at least \$1,000,000 and in a principal amount that is representative for a single transaction in U.S. dollars in such market at such time. The Company will request the principal London office of each of such banks to provide a quotation of its rate for such deposits. If at least two such quotations are provided, the rate in respect of such Interest Determination Date will be the arithmetic mean of the quotations provided to the Company. If fewer than two such quotations are provided, the Three-Month LIBOR Rate in respect of such Interest Determination Date will be determined on the basis of the rates quoted by three major banks in the Borough of Manhattan, The City of New York (which banks are to be selected by the Company and shall be reasonably acceptable to the Purchaser), at approximately 11:00 a.m., New York City time, on such Interest Determination Date for loans in U.S. dollars to leading European banks and having a three-month maturity and in a principal amount equal to an amount of at least \$1,000,000 and in a principal amount that is representative for a single transaction in U.S. dollars in such market at such time. If at least two such quotations are provided, the rate in respect of such Interest Determination Date will be at the arithmetic mean of the quotations provided; provided, however, that if none of the banks selected as aforesaid by the Company are quoting as described in the immediately preceding sentence, the Interest Rate will be the interest rate on the Notes in effect on such Interest Determination Date.

"Dow Jones Page 3750" means the display page designated as page 3750 on the Dow Jones Market Screen, formerly known as the Bridge Telerate, Inc. (or any successor service or such other page as may replace page 3750 on that service for the purpose of displaying London interbank offered rates).

The Interest Rate on the Notes will in no event be higher than the maximum rate permitted by the laws of the State of New York, as the same may be modified by the laws of the United States of general application.

At the request of the holder hereof, the Company will provide to such holder the Interest Rate then in effect for this

Note, if available, and, if different, the Interest Rate to be in effect as a result of a determination made on the most recent Interest Determination Date with respect to this Note.

Interest payments hereon will include the amount of interest accrued from and including the most recent Interest Payment Date to which interest has been paid to but excluding the applicable Interest Payment Date.

Unless otherwise specified herein, all percentages resulting from any calculation of the rate of interest on this Note will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upward (e.g., [2.102545%] (or [.02102545]) will be rounded upward to [2.10255]% (or [.0210255])), and all U.S. dollar amounts used in or resulting from such calculation will be rounded to the nearest cent (with one-half cent being rounded upward).

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of PNC Bank, National Association, in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Agreement referred to below.

This Note is one of the Senior Notes (herein called the "Notes") issued pursuant to the Note Purchase Agreement, dated as of June 12, 2002 (as from time to time amended, the "Note Purchase Agreement"), between American Water Capital Corp., American Water Works Company, Inc. and the Purchaser named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.1 of the Note Purchase Agreement.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED, IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat

the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise. If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, in the amount (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

The Notes and the holders thereof are entitled to the benefits of a Support Agreement (as defined in the Note Purchase Agreement) between American Water Capital Corp. and American Water Works Company, Inc.

[the remainder of this page has been left blank intentionally]

This Note and said Note Purchase Agreement are governed by and construed in accordance with the laws of New York.

AMERICAN WATER CAPITAL CORP.

By

Its

FORM OF OPINION OF COUNSEL FOR THE COMPANY AND AMERICAN WATER WORKS

The closing opinions of Simpson Thacher & Bartlett, counsel for American Water Works and the Company, and W. Timothy Pohl, General Counsel and Secretary of American Water Works, that are called for by Section 4.4 of the Note Purchase Agreement, shall be dated the date of the Closing and addressed to the Purchaser, shall be reasonably satisfactory in scope and form to the Purchaser and shall be to the effect that:

1. The Company has been duly incorporated and is

validly existing and in good standing as a corporation under the laws of the State of Delaware, has full corporate power and authority to execute and perform the Note Agreement and the Registration Rights Agreement and to issue the Notes and has full corporate power and authority to carry on its business as now conducted and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which its conduct requires such qualification except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

2. American Water Works has been duly incorporated and is validly existing and in good standing as a corporation under the laws of the State of Delaware, has full corporate power and authority to execute and perform the Note Agreement, the Registration Rights Agreement and the Support Agreement and has full corporate power and authority to carry on its business as now conducted and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which its conduct requires such qualification except where the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

3. The Note Purchase Agreement has been duly authorized, executed and delivered by each of American Water Works and the Company, and assuming due authorization, execution and delivery thereof by the Purchaser, constitutes a valid and legally binding obligation of American Water Works and the Company enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

4. The Registration Rights Agreement has been duly authorized, executed and delivered by each of American Water Works and the Company, and assuming due authorization, execution and delivery thereof by the Purchaser, constitutes a valid and legally binding obligation of American Water Works and the Company enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in

equity or at law) and an implied covenant of good faith and fair dealing.

5. The Support Agreement has been duly authorized, executed and delivered by each of American Water Works and the Company and constitutes the legal, valid and binding contract of American Water Works and the Company enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

6. The Notes have been duly authorized, executed and issued by the Company and, upon payment and delivery in accordance with the Note Purchase Agreement, will constitute the legal, valid and binding obligations of the Company enforceable in accordance with their terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

7. No consent, approval, authorization, order, registration or qualification of or with any Federal or New York governmental agency or body or any Delaware governmental agency or body acting pursuant to the Delaware General Corporation Law is required for the issue and sale of the Notes by the Company and the compliance by the Company with all of the provisions of the Note Purchase Agreement, the Registration Rights Agreement and the Support Agreement.

8. No registration under the Securities Act of 1933, as amended, of the Notes and no qualification of an indenture under the Trust Indenture Act of 1939, as amended, is required for the offer and sale of the Notes to the Purchaser in the manner contemplated by the Note Purchase Agreement.

9. The issue and sale of the Notes by the Company and the compliance by the Company with all of the provisions of the Note Purchase Agreement and the Support Agreement will not breach or result in a default under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument filed or incorporated by reference as an exhibit to the Disclosure Documents, nor will such action violate the Certificate of Incorporation or By-laws of the

Company or any Federal or New York statute or the Delaware General Corporation Law or any rule or regulation that has been issued pursuant to any Federal or New York statute or the Delaware General Corporation Law or any order known to us issued pursuant to any Federal or New York statute or the Delaware General Corporation Law by any court or governmental agency or body or court having jurisdiction over the Company or any of its subsidiaries or any of their properties.

10. The compliance by American Water Works with all of the provisions of the Note Purchase Agreement and the Support Agreement will not breach or result in a default under any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument filed or incorporated by reference as an exhibit to the Disclosure Documents, nor will such action violate the Certificate of Incorporation or By-laws of American Water Works or any Federal or New York statute or the Delaware General Corporation Law or any rule or regulation that has been issued pursuant to any Federal or New York statute or the Delaware General Corporation Law or any order known to us issued pursuant to any Federal or New York statute or the Delaware General Corporation Law by any court or governmental agency or body or court having jurisdiction over American Water Works or any of its subsidiaries or any of their properties.

11. Assuming the accuracy of the representations of the Company and American Water Works set forth in the Note Purchase Agreement, neither the issuance of the Notes nor the application of the proceeds of the sale of the Notes will violate or result in a violation of Section 7 of the Securities Exchange Act of 1934, as amended, or any regulation issued pursuant thereto, including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System.

12. To the knowledge of such counsel, there are no statutes or pending or threatened legal or governmental proceedings against or affecting American Water Works or the Company in any court or before any governmental authority or arbitration board or tribunal that, if adversely determined, would have a materially adverse effect on the legality, validity or enforceability of American Water Works obligations under the Support Agreement or American Water Works' or the Company's obligations under the Note Purchase Agreement or the Notes.

13. American Water Works is not an "investment company" within the meaning of and subject to regulation

under the Investment Company Act of 1940, as amended (the "Act"). The Company has received an order from the Securities and Exchange Commission exempting it from all provisions of the Act.

With respect to matters of fact on which such opinion is based, such counsel shall be entitled to rely on appropriate certificates of public officials and officers of American Water Works and the Company.

AMERICAN WATER CAPITAL CORP.

5.65% SENIOR NOTE DUE JUNE 12, 2007

No. 1 June 12, 2002

\$40,000,000

For Value Received, the undersigned, American Water Capital Corp. (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to RWE Aktiengesellschaft or registered assigns, the principal sum of Forty Million Dollars on June 12, 2007 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 5.65% per annum from the date hereof, payable annually, on the 12th day of June of each year, commencing with June 12, 2003, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable annually as aforesaid (or, at the option of the registered holder hereof, on demand), at the Default Rate. Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of PNC Bank, National Association, in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Agreement referred to below.

This Note is one of the Senior Notes (herein called the "Notes") issued pursuant to the Note Purchase Agreement, dated as of June 12, 2002 (as from time to time amended, the "Note

Purchase Agreement"), among American Water Capital Corp., American Water Works Company, Inc. and the Purchaser named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.1 of the Note Purchase Agreement.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED, IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise. If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, in the amount (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

The Notes and the holders thereof are entitled to the benefits of a Support Agreement (as defined in the Note Purchase Agreement) between American Water Capital Corp. and American Water Works Company, Inc.

[the remainder of this page has been left blank intentionally]

This Note and said Note Purchase Agreement are governed by and construed in accordance with the laws of New York.

AMERICAN WATER CAPITAL CORP.

By:

Name:

Title:

EXECUTION COPY

American Water Capital Corp.

5.65% Senior Notes due June 12, 2007

Floating Rate Senior Notes due June 26, 2003

EXCHANGE AND REGISTRATION RIGHTS AGREEMENT

June 12, 2002

RWE Aktiengesellschaft

Opernplatz 1, 45128

Essen, Germany

Ladies and Gentlemen:

American Water Capital Corp., a Delaware

corporation (the "Company"), proposes to issue and sell to

RWE Aktiengesellschaft (the "Initial Purchaser"), upon the

terms and subject to the conditions set forth in the Note

Purchase Agreement dated as of June 12, 2002 (the "Purchase

Agreement"), among the Initial Purchaser, American Water

Works Company, Inc., a Delaware corporation ("American Water

Works") and the Company up to \$170,000,000 aggregate

principal amount of its 5.65% Senior Notes due June 12, 2007

(the "Fixed Rate Notes") and \$150,000,000 aggregate principal

amount of its Floating Rate Senior Notes due June 26, 2003

(the "Floating Rate Notes" and together with the Fixed Rate

Notes, the "Notes"). Capitalized terms used but not defined

herein shall have the meanings given to such terms in the

Purchase Agreement.

As an inducement to the Initial Purchaser to enter

into the Purchase Agreement and in satisfaction of a

condition to the obligations of the Initial Purchaser

thereunder, American Water Works and the Company agree with

the Initial Purchaser, for the benefit of the holders of the

Notes (including the Initial Purchaser of the Notes)

(collectively the "Holders") as follows:

Section 23. REGISTERED EXCHANGE OFFER. THE COMPANY SHALL, UPON

DEMAND BY ANY HOLDER OF FIXED RATE NOTES ON THE ONE HAND, OR BY ANY HOLDER

OF FLOATING RATE NOTES ON THE OTHER HAND, MADE AFTER TERMINATION OF THE

MERGER AGREEMENT PURSUANT TO ARTICLE VII THEREOF, (I) PREPARE AND, NOT

LATER THAN 60 DAYS AFTER SUCH DEMAND (THE "FILING DATE"), FILE WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "COMMISSION") A REGISTRATION STATEMENT (THE "EXCHANGE OFFER REGISTRATION STATEMENT") ON AN APPROPRIATE FORM UNDER THE SECURITIES ACT WITH RESPECT TO A PROPOSED OFFER TO THE HOLDERS (THE "REGISTERED EXCHANGE OFFER") TO ISSUE AND DELIVER TO SUCH HOLDERS (X) OF FIXED RATE NOTES, IN EXCHANGE FOR THE FIXED RATE NOTES, A LIKE AGGREGATE PRINCIPAL AMOUNT OF DEBT SECURITIES OF THE COMPANY (THE "FIXED RATE EXCHANGE SECURITIES") OR (Y) OF FLOATING RATE NOTES, IN EXCHANGE FOR THE FLOATING RATE NOTES, A LIKE AGGREGATE PRINCIPAL AMOUNT OF DEBT SECURITIES OF THE COMPANY (THE "FLOATING RATE EXCHANGE SECURITIES" AND TOGETHER WITH THE FIXED RATE EXCHANGE SECURITIES, THE "EXCHANGE SECURITIES"), AS APPLICABLE, IN EACH CASE THAT ARE IDENTICAL IN ALL MATERIAL RESPECTS TO THE NOTES, EXCEPT FOR ANY TRANSFER RESTRICTIONS RELATING TO THE NOTES, (II) USE ITS REASONABLE BEST EFFORTS TO CAUSE THE EXCHANGE OFFER REGISTRATION STATEMENT TO BECOME EFFECTIVE UNDER THE SECURITIES ACT NO LATER THAN 75 DAYS AFTER THE FILING DATE AND THE REGISTERED EXCHANGE OFFER TO BE CONSUMMATED NO LATER THAN 105 DAYS AFTER THE FILING DATE AND (III) KEEP THE EXCHANGE OFFER REGISTRATION STATEMENT EFFECTIVE FOR NOT LESS THAN 30 DAYS (OR LONGER, IF REQUIRED BY APPLICABLE LAW) AFTER THE DATE ON WHICH NOTICE OF THE REGISTERED EXCHANGE OFFER IS MAILED TO THE HOLDERS (SUCH PERIOD BEING CALLED THE "EXCHANGE OFFER REGISTRATION PERIOD"). THE EXCHANGE SECURITIES WILL BE ISSUED UNDER AN INDENTURE BETWEEN THE COMPANY AND SUCH BANK OR TRUST COMPANY THAT IS REASONABLY SATISFACTORY TO THE INITIAL PURCHASER, AS TRUSTEE (THE "EXCHANGE SECURITIES TRUSTEE"), IN THE FORM OF THE INDENTURE FILED AS EXHIBIT 4(A) TO THE REGISTRATION STATEMENT ON FORM S-3 FILED BY AMERICAN WATER WORKS AND THE COMPANY WITH THE COMMISSION ON JANUARY 30, 2001 (WITH SUCH REVISIONS TO PROVIDE FOR FLOATING RATE EXCHANGE SECURITIES AS THE COMPANY AND THE INITIAL PURCHASER DEEM APPROPRIATE) AND SHALL CONTAIN THE SAME COVENANTS AND EVENTS OF DEFAULT WITH THE RESPECT TO THE COMPANY AS SET FORTH IN THE PURCHASE AGREEMENT (THE "EXCHANGE SECURITIES INDENTURE").

Upon the effectiveness of the Exchange Offer Registration Statement, the Company shall promptly commence the Registered Exchange Offer, it being the objective of such Registered Exchange Offer to enable each Holder electing to exchange Fixed Rate Notes for Fixed Rate Exchange Securities or each Holder electing to exchange Floating Rate Notes for Floating Rate Exchange Securities (assuming that such Holder (a) is not an affiliate of the Company or an Exchanging Dealer (as defined herein) not complying with the requirements of the next sentence, (b) is not an Initial Purchaser holding Notes that have, or that are reasonably likely to have, the status of an unsold allotment in an initial distribution, (c) acquires the Exchange Securities in the ordinary course of such Holder's business and (d) has no arrangements or understandings with any person to participate in the distribution of the Exchange Securities) and to trade such Exchange Securities from and after their receipt without

any limitations or restrictions under the Securities Act and without material restrictions under the securities laws of the several states of the United States. American Water Works, the Company, the Initial Purchaser and each Exchanging Dealer acknowledge that, pursuant to current interpretations by the Commission's staff of Section 5 of the Securities Act, each Holder that is a broker-dealer electing to exchange Notes, acquired for its own account as a result of market-making activities or other trading activities, for Exchange Securities (an "Exchanging Dealer"), is required to deliver a prospectus containing substantially the information set forth in Annex A hereto on the cover, in Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section and in Annex C hereto in the "Plan of Distribution" section of such prospectus in connection with a sale of any such Exchange Securities received by such Exchanging Dealer pursuant to the Registered Exchange Offer. If, prior to the consummation of the Registered Exchange Offer, any Holder holds any Notes acquired by it that have, or that are reasonably likely to be determined to have, the status of an unsold allotment in an initial distribution, or any Holder is not entitled to participate in the Registered Exchange Offer, the Company shall, upon the request of any such Holder, simultaneously with the delivery of the applicable Exchange Securities in the Registered Exchange Offer, issue and deliver to any such Holder, in exchange for the Notes held by such Holder (the "Private Exchange"), a like aggregate principal amount of debt securities of the Company (the "Private Exchange Securities") that are identical in all material respects to the Exchange Securities, except for the transfer restrictions relating to such Private Exchange Securities. The Private Exchange Securities will be issued under the same indenture as the applicable Exchange Securities, and the Company shall use its reasonable best efforts to cause the Private Exchange Securities to bear the same CUSIP number as the applicable Exchange Securities.

In connection with the Registered Exchange Offer, the Company shall:

Section 23.1. mail to each Holder a copy of the prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

Section 23.2. keep the Registered Exchange Offer open for not less than 30 days (or longer, if required by applicable law) after the date on which notice of the Registered Exchange Offer is mailed to the Holders;

Section 23.3. utilize the services of a depositary for the Registered Exchange Offer with an address in the Borough of Manhattan, The City of New York;

Section 23.4. permit Holders to withdraw tendered Notes at any time prior to the close of business, New York City time, on the last business day on which the Registered Exchange Offer shall remain open; and

Section 23.5. otherwise comply in all respects with all laws that are applicable to the Registered Exchange Offer.

As soon as practicable after the close of the Registered Exchange Offer and any Private Exchange, as the case may be, the Company shall:

(a) accept for exchange all Notes tendered and not validly withdrawn pursuant to the Registered Exchange Offer and the Private Exchange;

Section 23.6. deliver to the applicable Exchange Securities Trustee for cancellation all Securities so accepted for exchange; and

Section 23.7. cause the applicable Exchange Securities Trustee, promptly to authenticate and deliver to each Holder, Exchange Securities or Private Exchange Securities, as the case may be, equal in principal amount to the Notes of such Holder so accepted for exchange.

The Company shall use its reasonable best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the prospectus contained therein in order to permit such prospectus to be used by all persons subject to the prospectus delivery requirements of the Securities Act for such period of time as such persons must comply with such requirements in order to resell the Exchange Securities; provided that (i) in the case where such prospectus and any amendment or supplement thereto must be delivered by an Exchanging Dealer, such period shall be the lesser of 180 days and the date on which all Exchanging Dealers have sold all Exchange Securities held by them and (ii) the Company or American Water Works, as applicable, shall make such prospectus and any amendment or supplement thereto available to any broker-dealer for use in connection with any resale of any Exchange Securities for a period of not less than 90 days after the consummation of the Registered Exchange Offer.

The Exchange Securities Indenture shall provide that the Exchange Securities and the Private Exchange Securities of each series shall vote and consent together on all matters as one class and that none of the Exchange Securities or the Private Exchange Securities of a single series will have the right to vote or consent as a separate

class on any matter.

Interest on each Exchange Security and Private Exchange Security issued pursuant to the Registered Exchange Offer and in the Private Exchange will accrue from the last interest payment date on which interest was paid on the applicable Notes surrendered in exchange therefor or, if no interest has been paid on such Notes, from the date of original issuance of such Notes (each an "Issue Date"). Each Holder participating in the Registered Exchange Offer shall be required to represent to the Company that at the time of the consummation of the Registered Exchange Offer (i) any Exchange Securities received by such Holder will be acquired in the ordinary course of business, (ii) such Holder will have no arrangements or understanding with any person to participate in the distribution of the Securities or the Exchange Securities within the meaning of the Securities Act and (iii) such Holder is not an affiliate of the Company or, if it is such an affiliate, such Holder will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable. Each Holder participating in the Registered Exchange Offer shall furthermore make all representations as may be necessary under the applicable rules, regulations or interpretations of the Commission to render use of Form S-4 or another appropriate form under the Securities Act available.

Notwithstanding any other provisions hereof, the Company will ensure that (i) any Exchange Offer Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereto complies in all material respects with the Securities Act and the rules and regulations of the Commission thereunder, (ii) any Exchange Offer Registration Statement and any amendment thereto does not, when it becomes effective, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Exchange Offer Registration Statement, and any supplement to such prospectus, does not, as of the consummation of the Registered Exchange Offer, include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Section 24. SHELF REGISTRATION. IF (I) BECAUSE OF ANY CHANGE IN LAW OR APPLICABLE INTERPRETATIONS THEREOF BY THE COMMISSION'S STAFF, THE COMPANY IS NOT PERMITTED TO EFFECT THE REGISTERED EXCHANGE OFFER AS CONTEMPLATED BY

SECTION 1 HEREOF, OR (II) ANY NOTES VALIDLY TENDERED PURSUANT TO THE^{285.305(o)} REGISTERED EXCHANGE OFFER ARE NOT EXCHANGED FOR EXCHANGE SECURITIES WITHIN 105 DAYS AFTER THE FILING DATE, OR (III) THE INITIAL PURCHASER SO REQUESTS WITH RESPECT TO NOTES OR PRIVATE EXCHANGE SECURITIES NOT ELIGIBLE TO BE EXCHANGED FOR EXCHANGE SECURITIES IN THE REGISTERED EXCHANGE OFFER AND HELD BY IT FOLLOWING THE CONSUMMATION OF THE REGISTERED EXCHANGE OFFER, OR (IV) ANY APPLICABLE LAW OR INTERPRETATIONS DO NOT PERMIT ANY HOLDER TO PARTICIPATE IN THE REGISTERED EXCHANGE OFFER, OR (V) ANY HOLDER THAT PARTICIPATES IN THE REGISTERED EXCHANGE OFFER DOES NOT RECEIVE FREELY TRANSFERABLE EXCHANGE SECURITIES IN EXCHANGE FOR TENDERED NOTES, OR (VI) THE COMPANY SO ELECTS, THEN THE FOLLOWING PROVISIONS SHALL APPLY:

Section 24.1. If the Company is required by Section 2(b) hereof to file a shelf registration statement and the Registered Exchange Offer has not been consummated, the Company shall, as promptly as practicable (but in no event less than 15 days prior to filing such shelf registration) issue and deliver to any Holder, in exchange for the Notes held by such Holder, a like aggregate principal amount of debt securities (the "Alternate Private Exchange Securities") of the Company in a private exchange offer that complies with the requirements for a Private Exchange pursuant to Section 1 of this Agreement. For purposes of this Agreement, "Private Exchange Securities" shall include any Alternate Private Exchange Securities. Such Alternate Private Exchange Securities shall be issued under the same indenture as the Exchange Securities would have been issued under had the Exchange Offer been consummated, and the Company will cause the Alternate Private Exchange Securities to bear the same CUSIP number as the applicable Exchange Securities.

Section 24.2. The Company shall use its reasonable best efforts to file as promptly as practicable (but in no event more than 45 days after so required or requested pursuant to this Section 2) with the Commission, and thereafter shall use its reasonable best efforts to cause to be declared effective, a shelf registration statement on an appropriate form under the Securities Act relating to the offer and sale of the Transfer Restricted Securities (as defined below) by the Holders thereof from time to time in accordance with the methods of distribution set forth in such registration statement (hereafter, a "Shelf Registration Statement" and, together with any Exchange Offer Registration Statement, a "Registration Statement").

Section 24.3. The Company shall use its reasonable best efforts to keep the Shelf Registration Statement continuously effective in order to permit the prospectus forming part thereof to be used by Holders of Transfer Restricted Securities for a period ending on the earlier of (i) two

years from the applicable Issue Date or such shorter period that will terminate when all the Transfer Restricted Securities covered by the Shelf Registration Statement have been sold pursuant thereto and (ii) the date on which the Securities become eligible for resale without volume restrictions pursuant to Rule 144 under the Securities Act (in any such case, such period being called the "Shelf Registration Period"). The Company shall be deemed not to have used its reasonable best efforts to keep the Shelf Registration Statement effective during the requisite period if it voluntarily takes any action that would result in Holders of Transfer Restricted Securities covered thereby not being able to offer and sell such Transfer Restricted Securities during that period, unless such action is required by applicable law.

Section 24.4. Notwithstanding any other provisions hereof, the Company will ensure that (i) any Shelf Registration Statement and any amendment thereto and any prospectus forming part thereof and any supplement thereto complies in all material respects with the Securities Act and the rules and regulations of the Commission thereunder, (ii) any Shelf Registration Statement and any amendment thereto (in either case, other than with respect to information included therein in reliance upon or in conformity with written information furnished to the Company by or on behalf of any Holder specifically for use therein (the "Holders' Information")) does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading and (iii) any prospectus forming part of any Shelf Registration Statement, and any supplement to such prospectus (in either case, other than with respect to Holders' Information), does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Section 25. INCREASE IN INTEREST RATE. (a) THE PARTIES HERETO AGREE THAT THE HOLDERS OF TRANSFER RESTRICTED SECURITIES WILL SUFFER DAMAGES IF THE COMPANY FAILS TO FULFILL ITS OBLIGATIONS UNDER SECTION 1 OR SECTION 2, AS APPLICABLE, AND THAT IT WOULD NOT BE FEASIBLE TO ASCERTAIN THE EXTENT OF SUCH DAMAGES. ACCORDINGLY, IF (I) THE APPLICABLE REGISTRATION STATEMENT IS NOT FILED WITH THE COMMISSION ON OR PRIOR TO THE FILING DATE, (II) THE EXCHANGE OFFER REGISTRATION STATEMENT OR THE SHELF REGISTRATION STATEMENT, AS THE CASE MAY BE, IS NOT DECLARED EFFECTIVE WITHIN 75 DAYS AFTER THE FILING DATE (OR IN THE CASE OF A SHELF REGISTRATION STATEMENT REQUIRED TO BE FILED IN RESPONSE TO A CHANGE IN LAW OR THE APPLICABLE INTERPRETATIONS OF COMMISSION'S STAFF, IF LATER, WITHIN 60 DAYS AFTER PUBLICATION OF THE

CHANGE IN LAW OR INTERPRETATION), (III) THE REGISTERED EXCHANGE OFFER IS NOT CONSUMMATED ON OR PRIOR TO 105 DAYS AFTER THE FILING DATE, OR (IV) THE SHELF REGISTRATION STATEMENT IS FILED AND DECLARED EFFECTIVE WITHIN 75 DAYS AFTER THE FILING DATE (OR IN THE CASE OF A SHELF REGISTRATION STATEMENT REQUIRED TO BE FILED IN RESPONSE TO A CHANGE IN LAW OR THE APPLICABLE INTERPRETATIONS OF COMMISSION'S STAFF, IF LATER, WITHIN 60 DAYS AFTER PUBLICATION OF THE CHANGE IN LAW OR INTERPRETATION) BUT SHALL THEREAFTER CEASE TO BE EFFECTIVE (AT ANY TIME THAT THE COMPANY IS OBLIGATED TO MAINTAIN THE EFFECTIVENESS THEREOF) WITHOUT BEING SUCCEEDED WITHIN 45 DAYS BY AN ADDITIONAL REGISTRATION STATEMENT FILED AND DECLARED EFFECTIVE (EACH SUCH EVENT REFERRED TO IN CLAUSES (I) THROUGH (IV), A "REGISTRATION DEFAULT"), THE COMPANY WILL BE OBLIGATED TO PAY ADDITIONAL INTEREST IN CASH ON EACH INTEREST PAYMENT DATE IN AN AMOUNT EQUAL TO ONE-QUARTER OF ONE PERCENT (0.25%) PER ANNUM ON THE AGGREGATE OUTSTANDING PRINCIPAL AMOUNT OF THE SERIES OF NOTES SUBJECT TO SUCH REGISTRATION DEFAULT WITH RESPECT TO THE FIRST 90 DAYS FOLLOWING SUCH REGISTRATION DEFAULT. THE AMOUNT OF SUCH ADDITIONAL INTEREST WILL INCREASE BY AN ADDITIONAL ONE-QUARTER OF ONE PERCENT (0.25%) PER ANNUM FOR EACH SUBSEQUENT 90-DAY PERIOD UNTIL SUCH REGISTRATION DEFAULT HAS BEEN CURED, UP TO A MAXIMUM OF ONE PERCENT (1.0%) PER ANNUM. SUCH ADDITIONAL INTEREST SHALL CEASE TO ACCRUE WHEN (I) THE APPLICABLE REGISTRATION STATEMENT IS FILED, (II) THE EXCHANGE OFFER REGISTRATION STATEMENT IS DECLARED EFFECTIVE AND THE REGISTERED EXCHANGE OFFER IS CONSUMMATED, (III) THE SHELF REGISTRATION STATEMENT IS DECLARED EFFECTIVE OR (IV) THE SHELF REGISTRATION STATEMENT AGAIN BECOMES EFFECTIVE, AS THE CASE MAY BE. AS USED HEREIN, THE TERM "TRANSFER RESTRICTED SECURITIES" MEANS (I) EACH NOTE UNTIL THE DATE ON WHICH SUCH NOTE HAS BEEN EXCHANGED FOR A FREELY TRANSFERABLE EXCHANGE SECURITY IN THE REGISTERED EXCHANGE OFFER, (II) EACH NOTE OR PRIVATE EXCHANGE SECURITY UNTIL THE DATE ON WHICH IT HAS BEEN EFFECTIVELY REGISTERED UNDER THE SECURITIES ACT AND DISPOSED OF IN ACCORDANCE WITH THE SHELF REGISTRATION STATEMENT OR (III) EACH NOTE OR PRIVATE EXCHANGE SECURITY UNTIL THE DATE ON WHICH IT IS DISTRIBUTED TO THE PUBLIC PURSUANT TO RULE 144 UNDER THE SECURITIES ACT OR IS SALEABLE PURSUANT TO RULE 144(K) UNDER THE SECURITIES ACT.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS SECTION 3(A), THE COMPANY SHALL NOT BE REQUIRED TO PAY ADDITIONAL INTEREST TO A HOLDER OF TRANSFER RESTRICTED SECURITIES IF SUCH HOLDER FAILED TO COMPLY WITH ITS OBLIGATIONS TO MAKE THE REPRESENTATIONS SET FORTH IN THE SECOND TO LAST PARAGRAPH OF SECTION 1 OR FAILED TO PROVIDE THE INFORMATION REQUIRED TO BE PROVIDED BY IT, IF ANY, PURSUANT TO SECTION 4(N).

(a) The Company may, by notice to the Holders in accordance with Section 10(b) hereof, suspend the availability of the Shelf Registration Statement pending the announcement by the Company of a material corporate transaction or as otherwise required by applicable securities laws without paying additional interest pursuant to Section 3(a) above. In the event that the Shelf Registration Statement is suspended pursuant to

the immediately preceding sentence for more than 60 days in the aggregate in any consecutive twelve-month period (a "Registration Suspension Default"), the Company shall be required to pay additional interest pursuant to Section 3(a) until such Registration Suspension Default has been cured. The accrual of such additional interest will cease when such Registration Suspension Default has been cured.

(b) The Company shall pay the additional interest due on the Transfer Restricted Securities to the Holders, prior to 10:00 a.m., New York City time, on the next interest payment date specified by the applicable Notes. The additional interest due shall be payable on each interest payment date specified by the Notes to the record holder entitled to receive the interest payment to be made on such date. Each obligation to pay additional interest shall be deemed to accrue from and including the date of the applicable Registration Default.

(c) The parties hereto agree that the additional interest provided for in this Section 3 constitute a reasonable estimate of and are intended to constitute the sole damages that will be suffered by Holders of Transfer Restricted Securities by reason of the failure of (i) the Shelf Registration Statement or the Exchange Offer Registration Statement to be filed, (ii) the Shelf Registration Statement to remain effective or (iii) the Exchange Offer Registration Statement to be declared effective and the Registered Exchange Offer to be consummated, in each case to the extent required by this Agreement.

Section 26. REGISTRATION PROCEDURES. IN CONNECTION WITH ANY REGISTRATION STATEMENT, THE FOLLOWING PROVISIONS SHALL APPLY:

Section 26.1. The Company shall (i) furnish to the Initial Purchaser, prior to the filing thereof with the Commission, a copy of the Registration Statement and each amendment thereof and each supplement, if any, to the prospectus included therein and shall use its reasonable best efforts to reflect in each such document, when so filed with the Commission, such comments as any Initial Purchaser may reasonably propose; (ii) include the information set forth in Annex A hereto on the cover, in Annex B hereto in the "Exchange Offer Procedures" section and the "Purpose of the Exchange Offer" section and in Annex C hereto in the "Plan of Distribution" section of the prospectus forming a part of the Exchange Offer Registration Statement, and include the information set forth in Annex D hereto in the Letter of Transmittal

delivered pursuant to the Registered Exchange Offer; and
(iii) if requested by any Initial Purchaser, include the information required by Items 507 or 508 of Regulation S-K under the Securities Act, as applicable, in the prospectus forming a part of the Exchange Offer Registration Statement.
Section 26.2. The Company shall advise the Initial Purchaser, each Exchanging Dealer and the Holders (if applicable) and, if requested by any such person, confirm such advice in writing (which advice pursuant to clauses (ii)-(v) hereof shall be accompanied by an instruction to suspend the use of the prospectus until the requisite changes have been made):

- (i) when any Registration Statement and any amendment thereto has been filed with the Commission and when such Registration Statement or any post-effective amendment thereto has become effective;
- (ii) of any request by the Commission for amendments or supplements to any Registration Statement or the prospectus included therein or for additional information;
- (iii) of the issuance by the Commission or any other governmental agency or court of any stop order suspending the effectiveness of any Registration Statement or the initiation of any proceedings for that purpose;
- (iv) of the suspension of availability of the Shelf Registration Statement pursuant to Section 3(b) hereof;
- (v) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Notes, the Exchange Securities or the Private Exchange Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and
- (vi) of the happening of any event that requires the making of any changes in any Registration Statement or the prospectus included therein in order that the statements therein are not misleading and do not omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

Section 26.3. The Company will use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of any Registration Statement as soon as practicable.

Section 26.4. The Company will furnish to each Holder of

Transfer Restricted Securities included within the coverage of any Shelf Registration Statement, without charge, at least one conformed copy of such Shelf Registration Statement and any post-effective amendment thereto, including financial statements and schedules and, if any such Holder so requests in writing, all exhibits thereto (including those, if any, incorporated by reference).

Section 26.5. The Company will, during the Shelf Registration Period, promptly deliver to each Holder of Transfer Restricted Securities included within the coverage of any Shelf Registration Statement, without charge, as many copies of the prospectus (including each preliminary prospectus) included in such Shelf Registration Statement and any amendment or supplement thereto as such Holder may reasonably request; and the Company consents to the use of such prospectus or any amendment or supplement thereto by each of the selling Holders of Transfer Restricted Securities in connection with the offer and sale of the Transfer Restricted Securities covered by such prospectus or any amendment or supplement thereto.

Section 26.6. The Company will furnish to the Initial Purchaser and each Exchanging Dealer, and to any other Holder who so requests, without charge, at least one conformed copy of the Exchange Offer Registration Statement and any post-effective amendment thereto, including financial statements and schedules and, if the Initial Purchaser or Exchanging Dealer or any such Holder so requests in writing, all exhibits thereto (including those, if any, incorporated by reference).

Section 26.7. The Company will, during the Exchange Offer Registration Period or the Shelf Registration Period, as applicable, promptly deliver to the Initial Purchaser, each Exchanging Dealer and such other persons that are required to deliver a prospectus following the Registered Exchange Offer, without charge, as many copies of the final prospectus included in the Exchange Offer Registration Statement or the Shelf Registration Statement and any amendment or supplement thereto as the Initial Purchaser, Exchanging Dealer or other persons may reasonably request; and American Water Works and the Company consent to the use of such prospectus or any amendment or supplement thereto by any the Initial Purchaser, Exchanging Dealer or other persons, as applicable, as aforesaid.

Section 26.8. Prior to the effective date of any Registration Statement, the Company will use its reasonable best efforts to register or qualify, or cooperate with the Holders of Notes, Exchange Securities or Private Exchange

Securities included therein and its respective counsel in connection with the registration or qualification of, such Notes, Exchange Securities or Private Exchange Securities for offer and sale under the securities or blue sky laws of such jurisdictions as any such Holder reasonably requests in writing and do any and all other acts or things necessary or advisable to enable the offer and sale in such jurisdictions of the Notes, Exchange Securities or Private Exchange Securities covered by such Registration Statement; provided that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general service of process or to taxation in any such jurisdiction where it is not then so subject.

Section 26.9. The Company will cooperate with the Holders of Notes, Exchange Securities or Private Exchange Securities to facilitate the timely preparation and delivery of certificates representing Notes, Exchange Securities or Private Exchange Securities to be sold pursuant to any Registration Statement free of any restrictive legends and in such denominations (consistent with the Indentures) and registered in such names as the Holders thereof may request in writing prior to sales of Notes, Exchange Securities or Private Exchange Securities pursuant to such Registration Statement.

Section 26.10. If any event contemplated by Section 4(b)(ii) through (v) occurs during the period for which the Company is required to maintain an effective Registration Statement, the Company will promptly prepare and file with the Commission a post-effective amendment to the Registration Statement or a supplement to the related prospectus or file any other required document so that, as thereafter delivered to purchasers of the Notes, Exchange Securities or Private Exchange Securities from a Holder, the prospectus will not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Section 26.11. Not later than the effective date of the applicable Registration Statement, the Company will provide a CUSIP number for the Notes, the Exchange Securities and the Private Exchange Securities, as the case may be, and provide the applicable trustee with printed certificates for the Notes, the Exchange Securities or the Private Exchange Securities, as the case may be, in a form eligible for deposit with The Depository Trust Company.

Section 26.12. The Company will comply with all

applicable rules and regulations of the Commission and will make generally available to its security holders as soon as practicable after the effective date of the applicable Registration Statement an earning statement satisfying the provisions of Section 11(a) of the Securities Act; provided that in no event shall such earning statement be delivered later than 45 days after the end of a 12-month period (or 90 days, if such period is a fiscal year) beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the applicable Registration Statement, which statement shall cover such 12-month period.

Section 26.13. The Company will cause each of the Exchange Securities Indentures to be qualified under the Trust Indenture Act as required by applicable law in a timely manner.

Section 26.14. The Company may require each Holder of Transfer Restricted Securities to be registered pursuant to any Shelf Registration Statement to furnish to the Company such information concerning the Holder and the distribution of such Transfer Restricted Securities as the Company may from time to time reasonably require for inclusion in such Shelf Registration Statement, and American Water Works and the Company may exclude from such registration the Transfer Restricted Securities of any Holder that fails to furnish such information within a reasonable time after receiving such request. No such Holder shall be entitled to liquidated damages unless and until such Holder shall have used its reasonable best efforts to provide all such information.

Section 26.15. In the case of a Shelf Registration Statement, each Holder of Transfer Restricted Securities to be registered pursuant thereto agrees by acquisition of such Transfer Restricted Securities that, upon receipt of any notice from the Company pursuant to Section 4(b)(ii) through (v), such Holder will discontinue disposition of such Transfer Restricted Securities until such Holder's receipt of copies of the supplemental or amended prospectus contemplated by Section 4(j) or until advised in writing (the "Advice") by the Company that the use of the applicable prospectus may be resumed. If the Company shall give any notice under Section 4(b)(ii) through (v) during the period that the Company is required to maintain an effective Registration Statement (the "Effectiveness Period"), such Effectiveness Period shall be extended by the number of days during such period from and including the date of the giving of such notice to and including the date when each seller of Transfer Restricted Securities covered by such Registration Statement shall have received (x) the copies of the supplemental or amended

prospectus contemplated by Section 4(j) (if an amended or supplemental prospectus is required) or (y) the Advice (if no amended or supplemental prospectus is required).

Section 26.16. In the case of a Shelf Registration Statement, the Company shall enter into such customary agreements (including, if requested, an underwriting agreement in customary form on no more than one occasion) and take all such other action, if any, as Holders of a majority in aggregate principal amount of the Notes, Exchange Securities and Private Exchange Securities being sold or the managing underwriters (if any) shall reasonably request in order to facilitate any disposition of Notes, Exchange Securities or Private Exchange Securities pursuant to such Shelf Registration Statement.

Section 26.17. In the case of a Shelf Registration Statement, the Company shall (i) make reasonably available for inspection by a representative of, and Special Counsel (as defined below) acting for, Holders of a majority in aggregate principal amount of the Notes, Exchange Securities and Private Exchange Securities being sold and any underwriter participating in any disposition of Notes, Exchange Securities or Private Exchange Securities pursuant to such Shelf Registration Statement, all relevant financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries and (ii) use its reasonable best efforts to have its officers, directors, employees, accountants and counsel supply all relevant information reasonably requested by such representative, Special Counsel or any such underwriter (an "Inspector") in connection with such Shelf Registration Statement.

Section 26.18. In the case of a Shelf Registration Statement, the Company shall, if requested by Holders of a majority in aggregate principal amount of the Notes, Exchange Securities and Private Exchange Securities being sold, their Special Counsel or the managing underwriters (if any) in connection with such Shelf Registration Statement, use its reasonable best efforts to cause (i) its counsel to deliver an opinion relating to the Shelf Registration Statement and the Notes, Exchange Securities or Private Exchange Securities, as applicable, in customary form, (ii) its officers to execute and deliver all customary documents and certificates reasonably requested by Holders of a majority in aggregate principal amount of the Notes, Exchange Securities and Private Exchange Securities being sold, its Special Counsel or the managing underwriters (if any) and (iii) its independent public accountants to provide a comfort letter or letters in customary form, subject to receipt of appropriate

documentation as contemplated, and only if permitted, by
Statement of Auditing Standards No. 72.

Section 27. REGISTRATION EXPENSES. THE COMPANY WILL BEAR ALL EXPENSES INCURRED IN CONNECTION WITH THE PERFORMANCE OF ITS OBLIGATIONS UNDER SECTIONS 1, 2, 3 AND 4 AND THE COMPANY WILL REIMBURSE THE INITIAL PURCHASER AND THE HOLDERS FOR THE REASONABLE FEES AND DISBURSEMENTS OF ONE FIRM OF ATTORNEYS (IN ADDITION TO ANY LOCAL COUNSEL) DESIGNATED IN WRITING BY THE HOLDERS OF A MAJORITY IN AGGREGATE PRINCIPAL AMOUNT OF THE NOTES, THE EXCHANGE SECURITIES AND THE PRIVATE EXCHANGE SECURITIES TO BE SOLD PURSUANT TO EACH REGISTRATION STATEMENT (THE "SPECIAL COUNSEL") ACTING FOR THE INITIAL PURCHASER OR HOLDERS IN CONNECTION THEREWITH.

Section 28. INDEMNIFICATION. (b) IN THE EVENT OF A SHELF REGISTRATION STATEMENT OR IN CONNECTION WITH ANY PROSPECTUS DELIVERY PURSUANT TO AN EXCHANGE OFFER REGISTRATION STATEMENT BY THE INITIAL PURCHASER OR EXCHANGING DEALER, AS APPLICABLE, THE COMPANY SHALL INDEMNIFY AND HOLD HARMLESS EACH HOLDER (INCLUDING, WITHOUT LIMITATION, THE INITIAL PURCHASER OR ANY SUCH EXCHANGING DEALER), ITS AFFILIATES, THEIR RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES, REPRESENTATIVES AND AGENTS, AND EACH PERSON, IF ANY, WHO CONTROLS SUCH HOLDER WITHIN THE MEANING OF THE SECURITIES ACT OR THE EXCHANGE ACT (COLLECTIVELY REFERRED TO FOR PURPOSES OF THIS SECTION 6 AND SECTION 7 AS A HOLDER) FROM AND AGAINST ANY LOSS, CLAIM, DAMAGE OR LIABILITY, JOINT OR SEVERAL, OR ANY ACTION IN RESPECT THEREOF (INCLUDING, WITHOUT LIMITATION, ANY LOSS, CLAIM, DAMAGE, LIABILITY OR ACTION RELATING TO PURCHASES AND SALES OF NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES), TO WHICH THAT HOLDER MAY BECOME SUBJECT, WHETHER COMMENCED OR THREATENED, UNDER THE SECURITIES ACT, THE EXCHANGE ACT, ANY OTHER FEDERAL OR STATE STATUTORY LAW OR REGULATION, AT COMMON LAW OR OTHERWISE, INsofar AS SUCH LOSS, CLAIM, DAMAGE, LIABILITY OR ACTION ARISES OUT OF, OR IS BASED UPON, (I) ANY UNTRUE STATEMENT OR ALLEGED UNTRUE STATEMENT OF A MATERIAL FACT CONTAINED IN ANY SUCH REGISTRATION STATEMENT OR ANY PROSPECTUS FORMING PART THEREOF OR IN ANY AMENDMENT OR SUPPLEMENT THERETO OR (II) THE OMISSION OR ALLEGED OMISSION TO STATE THEREIN A MATERIAL FACT REQUIRED TO BE STATED THEREIN OR NECESSARY IN ORDER TO MAKE THE STATEMENTS THEREIN, IN THE LIGHT OF THE CIRCUMSTANCES UNDER WHICH THEY WERE MADE, NOT MISLEADING, AND SHALL REIMBURSE EACH HOLDER PROMPTLY UPON DEMAND FOR ANY LEGAL OR OTHER EXPENSES REASONABLY INCURRED BY THAT HOLDER IN CONNECTION WITH INVESTIGATING OR DEFENDING OR PREPARING TO DEFEND AGAINST OR APPEARING AS A THIRD PARTY WITNESS IN CONNECTION WITH ANY SUCH LOSS, CLAIM, DAMAGE, LIABILITY OR ACTION AS SUCH EXPENSES ARE INCURRED; PROVIDED, HOWEVER, THAT THE COMPANY SHALL NOT BE LIABLE IN ANY SUCH CASE TO THE EXTENT THAT ANY SUCH LOSS, CLAIM, DAMAGE, LIABILITY OR ACTION ARISES OUT OF, OR IS BASED UPON, AN UNTRUE STATEMENT OR ALLEGED UNTRUE STATEMENT IN OR OMISSION OR ALLEGED OMISSION FROM ANY OF SUCH DOCUMENTS IN RELIANCE UPON AND IN CONFORMITY WITH ANY HOLDERS' INFORMATION; AND PROVIDED, FURTHER, THAT WITH RESPECT TO ANY SUCH UNTRUE STATEMENT IN OR OMISSION FROM ANY RELATED PRELIMINARY PROSPECTUS, THE INDEMNITY AGREEMENT CONTAINED IN THIS SECTION 6(A) SHALL NOT INURE TO THE BENEFIT OF ANY HOLDER FROM WHOM THE PERSON ASSERTING ANY SUCH LOSS, CLAIM, DAMAGE, LIABILITY OR

ACTION RECEIVED NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES TO THE EXTENT THAT SUCH LOSS, CLAIM, DAMAGE, LIABILITY OR ACTION OF OR WITH RESPECT TO SUCH HOLDER RESULTS FROM THE FACT THAT BOTH (A) A COPY OF THE FINAL PROSPECTUS WAS NOT SENT OR GIVEN TO SUCH PERSON AT OR PRIOR TO THE WRITTEN CONFIRMATION OF THE SALE OF SUCH NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES TO SUCH PERSON AND (B) THE UNTRUE STATEMENT IN OR OMISSION FROM THE RELATED PRELIMINARY PROSPECTUS WAS CORRECTED IN THE FINAL PROSPECTUS UNLESS, IN EITHER CASE, SUCH FAILURE TO DELIVER THE FINAL PROSPECTUS WAS A RESULT OF NON-COMPLIANCE BY THE COMPANY WITH SECTION 4(D), 4(E), 4(F) OR 4(G).

(a) In the event of a Shelf Registration Statement, each Holder shall indemnify and hold harmless the Company, its affiliates, their respective officers, directors, employees, representatives and agents, and each person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (collectively referred to for purposes of this Section 6(b) and Section 7 as the Company), from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company may become subject, whether commenced or threatened, under the Securities Act, the Exchange Act, any other federal or state statutory law or regulation, at common law or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any such Registration Statement or any prospectus forming part thereof or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with any Holders' Information furnished to the Company by such Holder, and shall reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending or preparing to defend against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that no such Holder shall be liable for any indemnity claims hereunder in excess of the amount of net proceeds received by such Holder from the sale of Notes, Exchange

Securities or Private Exchange Securities pursuant to such Shelf Registration Statement.

(b) Promptly after receipt by an indemnified party under this Section 6 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party pursuant to Section 6(a) or 6(b), notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 6 except to the extent that it has been materially prejudiced (through the forfeiture of substantive rights or defenses) by such failure; and provided, further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 6. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 6 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than the reasonable costs of investigation; provided, however, that an indemnified party shall have the right to employ its own counsel in any such action, but the fees, expenses and other charges of such counsel for the indemnified party will be at the expense of such indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (2) the indemnified party has reasonably concluded (based upon advice of counsel to the indemnified party) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (3) a conflict or potential conflict exists (based upon advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party

will not have the right to direct the defense of such action on behalf of the indemnified party) or (4) the indemnifying party has not in fact employed counsel reasonably satisfactory to the indemnified party to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm of attorneys (in addition to any local counsel) at any one time for all such indemnified party or parties. Each indemnified party, as a condition of the indemnity agreements contained in Sections 6(a) and 6(b), shall use all reasonable efforts to cooperate with the indemnifying party in the defense of any such action or claim. No indemnifying party shall be liable for any settlement of any such action effected without its written consent (which consent shall not be unreasonably withheld), but if settled with its written consent or if there be a final judgment for the plaintiff in any such action, the indemnifying party agrees to indemnify and hold harmless any indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party (which consent shall not be unreasonably withheld), effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

Section 29. CONTRIBUTION. IF THE INDEMNIFICATION PROVIDED FOR IN SECTION 6 IS UNAVAILABLE OR INSUFFICIENT TO HOLD HARMLESS AN INDEMNIFIED PARTY UNDER SECTION 6(A) OR 6(B), THEN EACH INDEMNIFYING PARTY SHALL, IN LIEU OF INDEMNIFYING SUCH INDEMNIFIED PARTY, CONTRIBUTE TO THE AMOUNT PAID OR PAYABLE BY SUCH INDEMNIFIED PARTY AS A RESULT OF SUCH LOSS, CLAIM, DAMAGE OR LIABILITY, OR ACTION IN RESPECT THEREOF, (I) IN SUCH PROPORTION AS SHALL BE APPROPRIATE TO REFLECT THE RELATIVE BENEFITS RECEIVED BY THE COMPANY FROM THE OFFERING AND SALE OF THE NOTES, ON THE ONE HAND, AND BY A HOLDER FROM RECEIVING NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES, AS

APPLICABLE, REGISTERED UNDER THE SECURITIES ACT, ON THE OTHER, OR (II) ~~115~~^{305(o)} THE ALLOCATION PROVIDED BY CLAUSE (I) ABOVE IS NOT PERMITTED BY APPLICABLE LAW, IN SUCH PROPORTION AS IS APPROPRIATE TO REFLECT NOT ONLY THE RELATIVE BENEFITS REFERRED TO IN CLAUSE (I) ABOVE BUT ALSO THE RELATIVE FAULT OF THE COMPANY, ON THE ONE HAND, AND SUCH HOLDER, ON THE OTHER, WITH RESPECT TO THE STATEMENTS OR OMISSIONS THAT RESULTED IN SUCH LOSS, CLAIM, DAMAGE OR LIABILITY, OR ACTION IN RESPECT THEREOF, AS WELL AS ANY OTHER RELEVANT EQUITABLE CONSIDERATIONS. THE RELATIVE BENEFITS RECEIVED BY THE COMPANY, ON THE ONE HAND, AND A HOLDER, ON THE OTHER, WITH RESPECT TO SUCH OFFERING AND SUCH SALE SHALL BE DEEMED TO BE IN THE SAME PROPORTION AS THE TOTAL NET PROCEEDS FROM THE OFFERING OF THE NOTES (BEFORE DEDUCTING EXPENSES) RECEIVED BY OR ON BEHALF OF THE COMPANY, ON THE ONE HAND, BEAR TO THE TOTAL PROCEEDS RECEIVED BY SUCH HOLDER WITH RESPECT TO ITS SALE OF NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES, ON THE OTHER. THE RELATIVE FAULT SHALL BE DETERMINED BY REFERENCE TO, AMONG OTHER THINGS, WHETHER THE UNTRUE OR ALLEGED UNTRUE STATEMENT OF A MATERIAL FACT OR THE OMISSION OR ALLEGED OMISSION TO STATE A MATERIAL FACT RELATES TO THE COMPANY OR INFORMATION SUPPLIED BY THE COMPANY, ON THE ONE HAND, OR TO ANY HOLDERS? INFORMATION SUPPLIED BY SUCH HOLDER, ON THE OTHER, THE INTENT OF THE PARTIES AND THEIR RELATIVE KNOWLEDGE, ACCESS TO INFORMATION AND OPPORTUNITY TO CORRECT OR PREVENT SUCH UNTRUE STATEMENT OR OMISSION. THE PARTIES HERETO AGREE THAT IT WOULD NOT BE JUST AND EQUITABLE IF CONTRIBUTIONS PURSUANT TO THIS SECTION 7 WERE TO BE DETERMINED BY PRO RATA ALLOCATION OR BY ANY OTHER METHOD OF ALLOCATION THAT DOES NOT TAKE INTO ACCOUNT THE EQUITABLE CONSIDERATIONS REFERRED TO HEREIN. THE AMOUNT PAID OR PAYABLE BY AN INDEMNIFIED PARTY AS A RESULT OF THE LOSS, CLAIM, DAMAGE OR LIABILITY, OR ACTION IN RESPECT THEREOF, REFERRED TO ABOVE IN THIS SECTION 7 SHALL BE DEEMED TO INCLUDE, FOR PURPOSES OF THIS SECTION 7, ANY LEGAL OR OTHER EXPENSES REASONABLY INCURRED BY SUCH INDEMNIFIED PARTY IN CONNECTION WITH INVESTIGATING OR DEFENDING OR PREPARING TO DEFEND ANY SUCH ACTION OR CLAIM. NOTWITHSTANDING THE PROVISIONS OF THIS SECTION 7, AN INDEMNIFYING PARTY THAT IS A HOLDER OF NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES SHALL NOT BE REQUIRED TO CONTRIBUTE ANY AMOUNT IN EXCESS OF THE AMOUNT BY WHICH THE TOTAL PRICE AT WHICH THE NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES SOLD BY SUCH INDEMNIFYING PARTY TO ANY PURCHASER EXCEEDS THE AMOUNT OF ANY DAMAGES WHICH SUCH INDEMNIFYING PARTY HAS OTHERWISE PAID OR BECOME LIABLE TO PAY BY REASON OF ANY UNTRUE OR ALLEGED UNTRUE STATEMENT OR OMISSION OR ALLEGED OMISSION. NO PERSON GUILTY OF FRAUDULENT MISREPRESENTATION (WITHIN THE MEANING OF SECTION 11(F) OF THE SECURITIES ACT) SHALL BE ENTITLED TO CONTRIBUTION FROM ANY PERSON WHO WAS NOT GUILTY OF SUCH FRAUDULENT MISREPRESENTATION.

Section 30. RULES 144 AND 144A. THE COMPANY SHALL USE ITS REASONABLE BEST EFFORTS TO FILE THE REPORTS REQUIRED TO BE FILED BY EACH OF THEM UNDER THE SECURITIES ACT AND THE EXCHANGE ACT IN A TIMELY MANNER AND, IF AT ANY TIME THE COMPANY IS NOT REQUIRED TO FILE SUCH REPORTS, THE COMPANY WILL, UPON THE WRITTEN REQUEST OF ANY HOLDER OF TRANSFER RESTRICTED SECURITIES, MAKE PUBLICLY AVAILABLE OTHER INFORMATION SO LONG AS NECESSARY TO

PERMIT SALES OF SUCH HOLDER'S SECURITIES PURSUANT TO RULES 144 AND 144A^{245305(o)}. THE COMPANY COVENANTS THAT IT WILL TAKE SUCH FURTHER ACTION AS ANY HOLDER OF TRANSFER RESTRICTED SECURITIES MAY REASONABLY REQUEST, ALL TO THE EXTENT REQUIRED FROM TIME TO TIME TO ENABLE SUCH HOLDER TO SELL TRANSFER RESTRICTED SECURITIES WITHOUT REGISTRATION UNDER THE SECURITIES ACT WITHIN THE LIMITATION OF THE EXEMPTIONS PROVIDED BY RULES 144 AND 144A (INCLUDING, WITHOUT LIMITATION, THE REQUIREMENTS OF RULE 144A(D)(4)). UPON THE WRITTEN REQUEST OF ANY HOLDER OF TRANSFER RESTRICTED SECURITIES, THE COMPANY SHALL DELIVER TO SUCH HOLDER A WRITTEN STATEMENT AS TO WHETHER IT HAS COMPLIED WITH SUCH REQUIREMENTS. NOTWITHSTANDING THE FOREGOING, NOTHING IN THIS SECTION 8 SHALL BE DEEMED TO REQUIRE THE COMPANY TO REGISTER ANY OF ITS SECURITIES PURSUANT TO THE EXCHANGE ACT.

Section 31. UNDERWRITTEN REGISTRATIONS. IF ANY OF THE TRANSFER RESTRICTED SECURITIES COVERED BY ANY SHELF REGISTRATION STATEMENT ARE TO BE SOLD IN AN UNDERWRITTEN OFFERING, THE INVESTMENT BANKER OR INVESTMENT BANKERS AND MANAGER OR MANAGERS THAT WILL ADMINISTER THE OFFERING WILL BE SELECTED BY THE HOLDERS OF A MAJORITY IN AGGREGATE PRINCIPAL AMOUNT OF SUCH TRANSFER RESTRICTED SECURITIES INCLUDED IN SUCH OFFERING, SUBJECT TO THE CONSENT OF THE COMPANY (WHICH SHALL NOT BE UNREASONABLY WITHHELD OR DELAYED), AND SUCH HOLDERS SHALL BE RESPONSIBLE FOR ALL UNDERWRITING COMMISSIONS AND DISCOUNTS IN CONNECTION THEREWITH.

No person may participate in any underwritten registration hereunder unless such person (i) agrees to sell such person's Transfer Restricted Securities on the basis reasonably provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

Section 32. MISCELLANEOUS. (c) AMENDMENTS AND WAIVERS. THE PROVISIONS OF THIS AGREEMENT MAY NOT BE AMENDED, MODIFIED OR SUPPLEMENTED, AND WAIVERS OR CONSENTS TO DEPARTURES FROM THE PROVISIONS HEREOF MAY NOT BE GIVEN, UNLESS AMERICAN WATER WORKS AND THE COMPANY HAVE OBTAINED THE WRITTEN CONSENT OF HOLDERS OF A MAJORITY IN AGGREGATE PRINCIPAL AMOUNT OF THE NOTES, THE EXCHANGE SECURITIES AND THE PRIVATE EXCHANGE SECURITIES, TAKEN AS A SINGLE CLASS. NOTWITHSTANDING THE FOREGOING, A WAIVER OR CONSENT TO DEPART FROM THE PROVISIONS HEREOF WITH RESPECT TO A MATTER THAT RELATES EXCLUSIVELY TO THE RIGHTS OF HOLDERS WHOSE NOTES, EXCHANGE SECURITIES OR PRIVATE EXCHANGE SECURITIES ARE BEING SOLD PURSUANT TO A REGISTRATION STATEMENT AND THAT DOES NOT DIRECTLY OR INDIRECTLY AFFECT THE RIGHTS OF OTHER HOLDERS MAY BE GIVEN BY HOLDERS OF A MAJORITY IN AGGREGATE PRINCIPAL AMOUNT OF THE NOTES, THE EXCHANGE SECURITIES AND THE PRIVATE EXCHANGE SECURITIES BEING SOLD BY SUCH HOLDERS PURSUANT TO SUCH REGISTRATION STATEMENT.

(a) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail, telecopier

or air courier guaranteeing next-day delivery:

- (a) if to a Holder, at the most current address given by such Holder to American Water Works or the Company in accordance with the provisions of this Section 10(b);
- (b) if to the Initial Purchaser, initially at its address set forth in the Purchase Agreement; and
- (c) if to American Water Works or the Company, initially at the address of American Water Works and the Company set forth in the Purchase Agreement.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five business days after being delivered to a next-day air courier; five business days after being deposited in the mail; and when receipt is acknowledged by the recipient's telecopier machine, if sent by telecopier.

(b) Successors And Assigns. This Agreement shall be binding upon American Water Works and the Company and its successors and assigns, including, without limitation, subsequent Holders; provided that nothing herein shall be deemed to permit the assignment, transfer or other disposition of Notes in violation of the terms hereof or of the Purchase Agreement or the applicable Indenture.

(c) Counterparts. This Agreement may be executed in any number of counterparts (which may be delivered in original form or by telecopier) and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(d) Definition of Terms. For purposes of this Agreement, (a) the term "business day" means any day on which the New York Stock Exchange, Inc. is open for trading, (b) the term "subsidiary" has the meaning set forth in Rule 405 under the Securities Act and (c) except where otherwise expressly provided, the term "affiliate" has the meaning set forth in Rule 405 under the Securities Act.

(e) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(f) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(g) Remedies. In the event of a breach by the Company or by any Holder of any of their obligations under this Agreement, each Holder or the Company, as the

case may be, in addition to being entitled to exercise all rights granted by law, including recovery of damages (other than the recovery of damages for a breach by the Company of its obligations under Sections 1 or 2 hereof for which liquidated damages have been paid pursuant to Section 3 hereof), will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agree that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(h) No Inconsistent Agreements. The Company represents, warrants and agrees that (i) it has not entered into, and shall not, on or after the date of this Agreement, enter into any agreement that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof and (ii) without limiting the generality of the foregoing, without the written consent of the Holders of a majority in aggregate principal amount of the then outstanding Transfer Restricted Securities, it shall not grant to any person the right to request the Company to register any debt securities of the Company under the Securities Act unless the rights so granted are not in conflict or inconsistent with the provisions of this Agreement.

(i) No Piggyback on Registrations. Neither the Company nor any of its security holders (other than the Holders of Transfer Restricted Securities in such capacity) shall have the right to include any securities of the Company in any Shelf Registration or Registered Exchange Offer other than Transfer Restricted Securities.

(j) Severability. The remedies provided herein are cumulative and not exclusive of any remedies provided by law. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable best efforts to find and employ an alternative means to achieve the same or

substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

Please confirm that the foregoing correctly sets forth the agreement among the Company and the Initial Purchasers.

Very truly yours,

AMERICAN WATER WORKS
COMPANY, INC.,

By:

Name:

Title:

AMERICAN WATER CAPITAL
CORP.,

By:

Name:

Title:

Accepted:
RWE AKTIENGESELLSCHAFT,

By: _____

Name:

Title:

ANNEX A

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Registered Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. The Letter of Transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Securities where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities. American Water Works and the Company has agreed that, for a period of 180 days after the Expiration Date (as defined herein), it will make this Prospectus available to any broker-dealer for use in connection with any such resale. See "Plan of Distribution".

ANNEX B

Each broker-dealer that receives Exchange Securities for its own account in exchange for Notes, where such Securities were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. See "Plan of Distribution".

ANNEX C

PLAN OF DISTRIBUTION

Each broker-dealer that receives Exchange Securities for its own account pursuant to the Registered Exchange Offer must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Securities. This Prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Securities received in exchange for Securities where such Securities were acquired as a result of market-making activities or other trading activities. The Company has agreed that, for a period of 180 days after the Expiration Date, it will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. In addition,

until [] 200[], all dealers effecting transactions in the Exchange Securities may be required to deliver a prospectus.

The Company will not receive any proceeds from any sale of Exchange Securities by broker-dealers. Exchange Securities received by broker-dealers for their own account pursuant to the Registered Exchange Offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the Exchange Securities or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or at negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer or the purchasers of any such Exchange Securities. Any broker-dealer that resells Exchange Securities that were received by it for its own account pursuant to the Registered Exchange Offer and any broker or dealer that participates in a distribution of such Exchange Securities may be deemed to be an "underwriter" within the meaning of the Securities Act and any profit on any such resale of Exchange Securities and any commission or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The Letter of Transmittal states that, by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. For a period of 180 days after the Expiration Date, the Company will promptly send additional copies of this Prospectus and any amendment or supplement to this Prospectus to any broker-dealer that requests such documents in the Letter of Transmittal. The Company has agreed to pay all expenses incident to the Registered Exchange Offer (including the expenses of one counsel for the Holders of the Securities) other than commissions or concessions of any broker-dealers and will indemnify the Holders of the Securities (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act.

ANNEX D

? CHECK HERE IF YOU ARE A BROKER-DEALER AND WISH TO RECEIVE 10 ADDITIONAL COPIES OF THE PROSPECTUS AND 10 COPIES OF ANY AMENDMENTS OR SUPPLEMENTS THERETO.

Name:
Address:

If the undersigned is not a broker-dealer, the undersigned represents that it is not engaged in, and does not intend to engage in, a distribution of Exchange Securities. If the undersigned is a broker-dealer that will receive Exchange Securities for its own account in exchange for Securities that were acquired as a result of market-making activities or other trading activities, it acknowledges that it will deliver a prospectus in connection with any resale of such Exchange Securities; however, by so acknowledging and by delivering a prospectus, the undersigned will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act.

3
098888-0048-02792-NY03.2181178.3
3
098888-0048-02792-NY03.2181178.3
EXECUTION COPY

American Water Capital Corp. Note Purchase Agreement

A-5

SCHEDULE A
(to Note Purchase Agreement)

E-1A-3

EXHIBIT 1-A
(to Note Purchase Agreement)

E-1B-6

EXHIBIT 1-B
(to Note Purchase Agreement)

E-4.4-4

EXHIBIT 4.4
(to Note Purchase Agreement)

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

098888-0048-02792-NY03.2181178.3

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

098888-0048-02792-NY03.2181178.3

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

098888-0048-02792-NY03.2181178.3

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

<<NYCORP~2033907.5:4308:11/16/01-3:00p>>

098888-0048-02792-NY03.2181178.3

</TEXT>

</DOCUMENT>

<DOCUMENT>
<TYPE>10-Q
<SEQUENCE>1
<FILENAME>form10q.txt
<TEXT>

CONFORMED COPY
Page 1 of 31

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 September 30, 2002

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 1-3437-2

AMERICAN WATER WORKS COMPANY, INC.

(Exact name of registrant as specified in its charter)

Delaware 51-0063696

(State or other jurisdiction of (IRS Employer Identification No.)
incorporation or organization)

1025 Laurel Oak Road, Voorhees, New Jersey 08043

(Address of principal executive offices) (Zip Code)

(856) 346-8200

 (Registrant's telephone number, including area code)

Not Applicable

 (Former name, former address and former fiscal year, if changed since last report)

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 X No

----- -----
 At November 1, 2002, the number of shares of common stock, \$1.25 par value, outstanding was 100,070,453 shares.

PART I FINANCIAL INFORMATION

 Item 1. Financial Statements

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

 Consolidated Statements of Income and Comprehensive Income
 and of Retained Earnings (Unaudited)
 (In thousands, except per share amounts)

<TABLE>

	Three Months Ended	
	September 30,	
	2002	2001
	-----	-----
<s>	<c>	<c>
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$483,457	\$394,956
	-----	-----
Operating expenses		
Operation and maintenance	242,955	166,890
Depreciation and amortization	57,032	46,819
General taxes	35,363	33,049
	-----	-----

Total operating expenses	335,350	246,758	
	-----	-----	
Operating income	148,107	148,198	
	-----	-----	
Other income (deductions)			
Interest	(55,976)	(47,512)	
Allowance for other funds used during construction	2,377	1,098	
Allowance for borrowed funds used during construction	1,342	968	
Amortization of debt expense	(728)	(694)	
Preferred dividends of subsidiaries	(655)	(750)	
Merger expenses	(1,647)	(9,860)	
Gain from sale of operating systems	-	4,820	
Gain on sale of other investments	-	1,810	
Other, net	796	(329)	
	-----	-----	
Total other income (deductions)	(54,491)	(50,449)	
	-----	-----	
Income before income taxes	93,616	97,749	
Provision for income taxes	38,428	41,972	
	-----	-----	
Net income	55,188	55,777	
Dividends on preferred stocks	-	146	
	-----	-----	
Net income to common stock	55,188	55,631	
	-----	-----	

Three Months Ended
September 30,
2002 2001

<s>	<c>	<c>	
Other comprehensive income (loss), net of tax			
Unrealized gain (loss) on securities	866	(12,181)	
Reclassification adjustment for gain included in net income	-	(1,104)	

Foreign currency translation adjustment	(1,242)	-	

Other comprehensive income (loss), net of tax	(376)	(13,285)	

Comprehensive income	\$ 54,812	\$ 42,346	
=====			

Average shares of basic common stock outstanding 100,062 99,723

Earnings per average common share outstanding

Basic	\$.55	\$.56
=====		
Diluted	\$.55	\$.56
=====		

CONSOLIDATED RETAINED EARNINGS

Balance at July 1	\$1,173,145	\$1,096,271
Add - net income	55,188	55,777
Preferred stock redemption premium		(37)
Gain on treasury stock	-	57

	1,228,296	1,152,105

Deduct - dividends paid		
Preferred stock	-	32
Preference stock	-	114
Common stock - \$.245 per share in 2002; \$.235 per share in 2001	24,512	23,409

	24,512	23,555

Balance at September 30	\$1,203,784	\$1,128,550
=====		

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

 Consolidated Statements of Income and Comprehensive Income
 and of Retained Earnings (Unaudited)
 (In thousands, except per share amounts)

<TABLE>

	Nine Months Ended	
	September 30,	
	2002	2001
	-----	-----
<s>	<c>	<c>
CONSOLIDATED INCOME AND COMPREHENSIVE INCOME		
Operating revenues	\$1,292,211	\$1,075,261
	-----	-----
Operating expenses		
Operation and maintenance	674,506	478,189
Depreciation and amortization	170,292	136,248
General taxes	105,595	98,825
	-----	-----
Total operating expenses	950,393	713,262
	-----	-----
Operating income	341,818	361,999
	-----	-----
Other income(deductions)		
Interest	(170,399)	(144,653)
Allowance for other funds used during construction	5,908	3,364
Allowance for borrowed funds used during construction	3,512	3,035
Amortization of debt expense	(2,119)	(2,082)
Preferred dividends of subsidiaries	(2,063)	(2,275)
Merger expenses	(3,380)	(9,860)
Gain from sale of operating systems	50,709	4,820
Gain on sale of other investments	11,702	5,177
Gain on sale of land	15,851	-
Other, net	813	(1,301)

Total other income (deductions)	(89,466)	(143,775)
Income before income taxes	252,352	218,224
Provision for income taxes	115,286	89,605
Income before cumulative effect of change in accounting principle	137,066	128,619
Cumulative effect of change in accounting principle	2,679	-
Net income	139,745	128,619
Dividends on preferred stocks	146	438
Net income to common stock	139,599	128,181

Nine Months Ended
September 30,
2002 2001

	<c>	<c>
Other comprehensive income (loss), net of tax		
Unrealized loss on securities	(7,596)	(16,636)
Reclassification adjustment for (gain) loss included in net income	5,837	(3,158)
Foreign currency translation adjustment	165	-
Other comprehensive income (loss), net of tax	(1,594)	(19,794)
Comprehensive income	\$ 138,005	\$ 108,387

Average shares of basic common stock outstanding 100,041 99,287

Earnings per average common share outstanding
Income before cumulative effect of change

in accounting principle	\$ 1.37	\$ 1.29
Cumulative effect of change in accounting principle	.03	-

Basic	\$ 1.40	\$ 1.29
-------	---------	---------

Income before cumulative effect of change in accounting principle	\$ 1.36	\$ 1.29
Cumulative effect of change in accounting principle	.03	-

Diluted	\$ 1.39	\$ 1.29
---------	---------	---------

CONSOLIDATED RETAINED EARNINGS

Balance at January 1	\$1,137,772	\$1,069,486
Add - net income	139,745	128,619
Preferred stock redemption premium		(62)
Gain on treasury stock	-	801
	1,277,455	1,198,906

Deduct - dividends paid		
Preferred stock	32	96
Preference stock	114	342
Common stock - \$.735 per share in 2002; \$.705 per share in 2001	73,525	69,918
	73,671	70,356

Balance at September 30	\$1,203,784	\$1,128,550
-------------------------	-------------	-------------

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Balance Sheet (Unaudited)
(In thousands)

<TABLE>

	September 30, 2002	December 31, 2001
<s>	<c>	<c>
ASSETS		
Property, plant and equipment		
Utility plant - at original cost less		
accumulated depreciation	\$ 6,076,022	\$ 5,458,909
Utility plant acquisition adjustments, net	211,306	68,916
Non-utility property, net of accumulated		
depreciation	99,480	94,149
	-----	-----
Total property, plant and equipment	6,386,808	5,621,974
	-----	-----
Current assets		
Cash and cash equivalents	40,031	19,691
Utility customer accounts receivable	139,618	105,101
Allowance for uncollectible accounts	(4,320)	(2,860)
Unbilled revenues	94,602	86,065
Other receivables, net	69,909	59,724
Materials and supplies	33,610	32,281
Deferred vacation pay	12,503	11,422
Other	23,301	19,164
	-----	-----
Total current assets	409,254	330,588
	-----	-----
Regulatory and other long-term assets		
Regulatory asset - income taxes		
recoverable through rates	213,377	217,330
Other investments	22,394	39,956
Debt and preferred stock expense	47,332	45,882
Deferred pension expense	38,085	30,712
Deferred postretirement benefit expense	8,650	9,318
Deferred security costs	26,259	7,058
Deferred business services project expenses	42,513	36,311
Deferred insurance expense	8,102	4,998
Deferred tank painting costs	13,468	16,585
Restricted funds	-	8,570
Goodwill	238,883	136,488

Intangible assets	72,295	23,400	
Other	87,152	77,929	
	-----	-----	
Total regulatory and other long-term assets	818,510	654,537	
	-----	-----	
TOTAL ASSETS	\$ 7,614,572	\$ 6,607,099	
	=====	=====	

September 30, December 31,
2002 2001

<s>	<c>	<c>	
CAPITALIZATION AND LIABILITIES			
Capitalization			
Common stockholders' equity	\$ 1,823,278	\$ 1,758,018	
Preferred stocks without mandatory redemption requirements	-	11,673	
Preferred stocks of subsidiaries with mandatory redemption requirements	28,254	30,474	
Preferred stocks of subsidiaries without mandatory redemption requirements	5,708	7,268	
Long-term debt			
American Water Works Company, Inc.	169,000	297,000	
Subsidiaries	3,298,763	2,253,019	
	-----	-----	
Total capitalization	5,325,003	4,357,452	
	-----	-----	
Current liabilities			
Short-term debt	196,965	414,083	
Current portion of long-term debt	285,502	166,087	
Accounts payable	48,567	67,996	
Taxes accrued, including federal income	61,316	21,756	
Interest accrued	86,720	43,015	
Accrued vacation pay	12,731	11,577	
Other	109,232	100,220	
	-----	-----	
Total current liabilities	801,033	824,734	

	-----	-----	
Regulatory and other long-term liabilities			
Advances for construction	265,335	230,801	
Deferred income taxes	629,997	624,449	
Deferred investment tax credits	35,938	38,633	
Accrued pension expense	73,200	62,355	
Accrued postretirement benefit expense	14,272	13,808	
Accrued insurance expense	11,526	5,020	
Other	40,722	35,987	
	-----	-----	
Total regulatory and other long-term liabilities	1,070,990	1,011,053	
	-----	-----	
Contributions in aid of construction	417,546	413,860	
	-----	-----	
Commitments and contingencies	--	--	
	-----	-----	
TOTAL CAPITALIZATION AND LIABILITIES	\$ 7,614,572	\$ 6,607,099	
	=====	=====	

The accompanying notes are an integral part of these financial statements.

</TABLE>

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Consolidated Statement of Cash Flows (Unaudited)
(In thousands)

<TABLE>

Nine Months Ended
September 30,
2002 2001

	-----	-----
	<c>	<c>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 139,745	\$ 128,619
Adjustments		

Depreciation and amortization	170,292	136,248	
Cumulative effect of change in accounting Principle	(2,679)	-	
Gain from sale of operating systems	(50,709)	(4,820)	
Gain on sale of other investments	(22,466)	(5,177)	
Loss on write down of other investments	10,764	-	
Gain on sale of land	(15,851)	-	
Provision for deferred income taxes	31,553	10,148	
Provision for losses on accounts receivable	10,689	7,266	
Allowance for other funds used during construction	(5,908)	(3,364)	
Employee benefit expenses greater (less) than funding	4,090	525	
Employee stock plan expenses	3,351	3,745	
Deferred regulatory costs	(28,043)	(32,042)	
Amortization of deferred charges	16,020	12,332	
Other, net	(5,727)	(2,683)	
Changes in assets and liabilities, net of effects from acquisitions			
Accounts receivable	(45,623)	(34,576)	
Unbilled revenues	(8,997)	(10,290)	
Other current assets	(7,239)	(3,391)	
Accounts payable	(22,345)	(6,103)	
Taxes accrued, including federal income	37,795	60,442	
Interest accrued	45,239	6,512	
Other current liabilities	9,305	(1,107)	
	-----	-----	
Net cash from operating activities	263,256	262,284	
	-----	-----	
CASH FLOWS FROM INVESTING ACTIVITIES			
Construction expenditures	(294,678)	(251,225)	
Allowance for other funds used during construction	5,908	3,364	
Acquisitions	(898,047)	(55,859)	
Proceeds from the sale of assets	164,684	19,359	
Removal costs from property, plant and equipment retirements	(5,002)	(9,633)	
Restricted funds	8,570	(247)	
	-----	-----	
Net cash used in investing activities	(1,018,565)	(294,241)	
	-----	-----	

Nine Months Ended

	September 30,	
	2002	2001
<s>	-----	-----
	<c>	<c>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,119,317	148,321
Proceeds from common stock	1,583	34,736
Purchase of common stock for treasury	(36)	(932)
Net borrowings (repayments) under short-term debt agreements	(209,515)	35,377
Advances and contributions for construction, net of refunds	35,811	22,109
Debt issuance costs	(6,782)	(1,004)
Repayment of long-term debt	(76,912)	(119,304)
Redemption of preferred stocks	(14,146)	(2,204)
Dividends paid	(73,671)	(70,356)
	-----	-----
Net cash from financing activities	775,649	46,743
	-----	-----
Net increase in cash and cash equivalents	20,340	14,786
Cash and cash equivalents at January 1	19,691	28,571
	-----	-----
Cash and cash equivalents at September 30	\$ 40,031	\$ 43,357
	=====	=====

Common stock placed into treasury in connection with the Employees Stock Ownership Plan, the Savings Plan for Employees, and 2000 Stock Award and Incentive Plan totaled \$983 in 2002 and \$1,774 in 2001.

The accompanying notes are an integral part of these financial statements.

</TABLE>

=====

Common stockholders' equity			
Common stock - \$1.25 par value			
Authorized - 300,000,000 shares			
Issued - 100,086,564 shares in 2002;			
100,016,273 shares in 2001	\$ 125,108	\$ 125,020	
Paid-in capital	490,704	489,868	
Retained earnings	1,203,784	1,137,772	
Accumulated other comprehensive income		4,364	5,958
Unearned compensation	-	(539)	
Treasury stock at cost - 16,111 shares in			
2002; 1,891 shares in 2001	(682)	(61)	
	-----	-----	
	\$1,823,278	\$1,758,018	
	=====	=====	

At September 30, 2002, common shares reserved for issuance in connection with the Company's stock plans were 80,865,863 shares for the Stockholder Rights Plan, 1,641,852 shares for the Dividend Reinvestment and Stock Purchase Plan, 565,493 shares for the Employees' Stock Ownership Plan and 532,381 shares for the Savings Plan for Employees. Up to 4,234,367 shares of common stock may be issued under the 2000 Stock Award and Incentive Plan, of which approximately 3,300,000 shares were available to be granted at September 30, 2002.

AMERICAN WATER WORKS COMPANY, INC. AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 -- Financial Statement Presentation

The information presented in this Form 10-Q is unaudited. In the opinion of management the information reported reflects all adjustments which were necessary to a fair statement of the results for the periods reported.

Certain reclassifications have been made to conform previously reported data to the current presentation.

NOTE 2 -- Merger Agreement with RWE

On September 16, 2001 the Company entered into a merger agreement with RWE Aktiengesellschaft and Thames Water Aqua Holdings GmbH, which is RWE's holding company for its global water business, to merge with a subsidiary of RWE and become a wholly owned indirect subsidiary of RWE. Under the terms of the merger agreement RWE will purchase all the outstanding shares of American Water Works Company common stock at a price of \$46.00 per share in cash.

RWE is a global multi-utility company that does business through its subsidiaries and affiliates in over 120 countries. Its core businesses are electricity, gas, water, and waste and recycling. Upon completion of the transaction, American Water will be combined with the U.S. operations of Thames Water Plc, RWE's London-based international water services business. American Water will manage the joint operations in North, Central and South America.

The transaction was approved at a special meeting of the stockholders of American Water Works Company on January 17, 2002. Before the transaction can be completed, state and federal regulatory approvals are required. As of the end of January 2002, all of the applications for approval were filed where required by state regulatory authorities. The states where applications for approval have been filed are Arizona, California, Hawaii, Illinois, Kentucky, Maryland, New Jersey, New Mexico, New York, Pennsylvania, Tennessee, Virginia and West Virginia. The states of Georgia and Michigan do not regulate the Company's utility operations, and the states of Indiana, Iowa, Missouri, Ohio and Texas have no statutory jurisdiction over the RWE transaction. The Company is still awaiting approval in five states. Those states are Arizona, California, Illinois, New Jersey and New York. In Arizona the briefing process has been completed and the Commission is expected to reach a decision by the latter part of November. In California a schedule for processing the request has been issued by the Commission that could result in an Administrative Law Judge (ALJ) assigned to the case issuing a recommended decision no later than December 19, 2002. Once the ALJ's decision is issued there is a 25-day period for comments by the applicants and intervenors before the record is presented to the Commission for decision. In Illinois the ALJ has issued a decision recommending approval of the transaction with conditions. The date to file exceptions to that decision has expired. The Commission's decision is anticipated prior to the statutory deadline

of November 21, 2002. In New Jersey briefing will be completed by November 18, 2002 and a final decision is anticipated in the fourth quarter. In New York an accord has been reached with the Commission Staff that could be reviewed by the Commission at its November 20, 2002 public meeting. Settlement was earlier reached with the labor union that represents a portion of the Company's workforce and resulted in the Union's recommendation that the Commission approve the acquisition. Since approving the transaction in May, the Kentucky Public Service Commission reaffirmed its decision and clarified some of the conditions set forth in its original order. Several parties to the Kentucky proceedings have appealed the Kentucky Commission's decision in a consolidated action before a Kentucky state court, which will consider no evidence other than the record that was before the Kentucky Commission. Although the West Virginia Public Service Commission approved the transaction subject only to conditions as to which the Company is seeking clarification, the West Virginia attorney general has petitioned the Commission seeking to intervene in the proceedings. Although the Indiana Utility Regulatory Commission does not have statutory jurisdiction over the transaction, that Commission is conducting a review of the transaction. The Company made a Hart-Scott-Rodino filing with the Federal Trade Commission in the second quarter of 2002 and the investigation period expired without additional inquiry. The Company continues to believe that the original projection for a closing to occur some time during the first six months of 2003 remains a reasonable expectation.

One condition of the agreement requires the Company to redeem its publicly traded preferred stock prior to closing. That redemption was completed on March 1, 2002.

During the first nine months of 2002 and 2001 the Company recorded charges of \$3.4 million and \$9.9 million, respectively, reflecting costs incurred in connection with the merger. The merger related costs have been reported on a separate line in the consolidated statement of income and comprehensive income. No tax benefit was recognized for these expenses, which are mostly legal fees, because it is not probable that these costs will be deductible for tax purposes.

On November 6, 2001 the Company and its financing subsidiary, American Water Capital Corp.(AWCC), executed a Note Purchase Agreement with RWE for \$1.2 billion in senior unsecured notes at an interest rate of 4.92%. The notes were purchased at par by RWE and mature on November 6, 2006. The Company and its subsidiaries used the proceeds from the sale of the notes to acquire the common stock of Azurix North America Corp. and Azurix

Industrials Corp., to fund the acquisition of the water and wastewater assets of Citizens Communications Company and to reduce outstanding short-term debt. Closing occurred in two tranches with one on November 6, 2001 in the amount of \$298.5 million and another on January 14, 2002 in the amount of \$900 million.

On June 12, 2002 the Company and AWCC executed a Note Purchase Agreement with RWE for \$320 million in senior unsecured notes. The agreement calls for up to \$170 million in notes at an interest rate of 5.65% maturing on June 12, 2007 and \$150 million in notes at a floating interest rate based on LIBOR rates plus 20 basis points maturing on June 26, 2003. Closing occurred on \$40 million of the 5.65% senior notes on June 12, 2002 and closing on the remaining \$130 million of 5.65% notes took place on September 30, 2002. AWCC intends to issue the floating rate notes in the fourth quarter and will use the proceeds to repay other short-term debt.

NOTE 3 -- Business Combinations/Goodwill and Other Intangible Assets, Adoption of New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and No. 142, "Goodwill and Other Intangible Assets" (SFAS 142), collectively referred to as the "Standards." SFAS 141 supersedes Accounting Principles Board Opinion (APB) No. 16, "Business Combinations." The provisions of SFAS 141 (1) require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provided specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS 141 also requires that upon adoption of SFAS 142 the Company reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria. SFAS 142 supersedes APB 17, "Intangible Assets," and is effective for fiscal years beginning after December 15, 2001. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets be tested annually for impairment (and in interim periods if certain events occur indicating that the carrying value of goodwill and/or indefinite-lived intangible assets may be impaired), (3) require that reporting units be identified for the purpose of assessing potential future impairments of goodwill, and (4) remove the forty-year limitation on the amortization period of intangible assets that have

finite lives. The Company adopted the provisions of the Standards on January 1, 2002.

The Standards require the excess of the fair values of acquired net assets over cost recorded in the statement of financial position to be recognized as the effect of a change in accounting principle as of the date SFAS 141 is initially applied in its entirety. In compliance with this transition requirement the Company recognized a \$2.7 million gain on January 1, 2002.

During the second quarter of 2002 the Company completed the process of making the determinations as to what its reporting units are and what amounts of goodwill, intangible assets, other assets and liabilities should be allocated to those reporting units as of January 1, 2002. The Company's reporting units are the 27 separate regulated utility subsidiaries (including the five New England subsidiaries that were sold on April 25, 2002) and unregulated services reporting units at American Water Resources and American Water Services. The Company's carrying value of goodwill at January 1, 2002 was \$139.2 million, of which \$23.4 million was assigned to various regulated subsidiaries and \$115.8 million was assigned to American Water Services. Intangible assets with an assigned value of \$23.4 million (subsequently adjusted to \$14.2 million in 2002) were management contracts at American Water Services that have a finite life.

A transitional impairment test for goodwill as of January 1, 2002 was completed by the Company in the second quarter of 2002. Income and market approaches were used for reporting unit valuations. The methodologies used to implement the market approach were the market multiples methodology, which results in an indication of value by comparing the business being valued to guideline publicly traded companies, and the similar transactions methodology, which develops an indication of value based on prices paid for comparable businesses. The methodology used to implement the income approach was the capitalized income approach that bases the value of an asset on the future cash flows attributable to that asset. Based on these approaches the Company determined that goodwill is not currently impaired. The Company will perform required annual impairment tests in the fourth quarter after the long-term planning process has been completed.

The Company is no longer recording \$1.7 million of annual tax deductible amortization relating to the goodwill associated with the 1999 acquisition of its joint venture partner's interest in AmericanAnglian Environmental Technologies. The remainder of the goodwill and intangible assets at January 1, 2002 were not being amortized because they are related to

business combinations completed after the July 1, 2001 effective date of SFAS 141 or the goodwill was related to acquisitions that occurred prior to October 31, 1970 that was not being amortized because in the opinion of management there had been no diminution in value. The following table reflects consolidated results adjusted as though the adoption of the Standards occurred as of the beginning of the three and nine-month periods ended September 30, 2001:

<TABLE>

<p><s></p>	<p><c></p>	<p><c></p>
<p>(\$000's except per share amounts)</p>		
<p>2002</p>		
<p>2001</p>		

Three months ended September 30

<p>Reported net income</p>		
<p>\$55,188</p>		
<p>\$55,777</p>		
<p>Add back goodwill amortization</p>		
<p>-</p>		
<p>269</p>		
<p>Adjusted net income</p>		
<p>\$55,188</p>		
<p>\$56,046</p>		

Basic earnings per share:

<p>Reported net income</p>		
<p>\$.55</p>		
<p>\$.56</p>		
<p>Goodwill amortization</p>		
<p>-</p>		
<p>-</p>		
<p>Adjusted net income</p>		
<p>\$.55</p>		
<p>\$.56</p>		

Diluted earnings per share:

Reported net income

\$.55

\$.56

Goodwill amortization

-

-

Adjusted net income

\$.55

\$.56

Nine months ended September 30

Reported income before cumulative
effect of change in
accounting principle

\$137,066

\$128,619

Add back goodwill amortization

-

807

Adjusted income before cumulative
effect of change in accounting
principle

\$137,066

\$129,426

Reported net income

\$139,745

\$128,619

Add back goodwill amortization

-

807

Adjusted net income

\$139,745

\$129,426

Basic earnings per share:

Income before cumulative effect
of change in accounting
principle

\$1.37

\$1.29

Cumulative effect of change in
accounting principle

.03

-

As reported

1.40

1.29

Goodwill amortization

-

.01

Adjusted

\$1.40

\$1.30

Diluted earnings per share:

Income before cumulative effect of

change in accounting principle

\$1.36

\$1.29

Cumulative effect of change in
accounting principle

.03

-

As reported

1.39

1.29

Goodwill amortization

-

.01

Adjusted

\$1.39

\$1.30

</TABLE>

NOTE 4 -- Acquisition Of Water And Wastewater Assets Of Citizens
Communications Company

On January 15, 2002 the Company and its subsidiaries completed their acquisition of all of the water and wastewater assets of Citizens Communications Company (NYSE:CZN) for \$859 million in cash and \$120 million of assumed liabilities. Upon completion of the audited closing statement of net assets a final purchase price will be agreed upon. At this time the Company expects a minor decrease in the purchase price. The acquired operations provide water and wastewater service to almost 300,000 regulated customers in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania. Citizens also had developed a water supply project in Illinois with the possibility of additional wholesale customers along the pipeline.

The Company is completing the determination of the amounts to be assigned to intangible assets and goodwill. At September 30, 2002, \$84.2 million and \$59.6 were recorded as goodwill and intangibles, respectively, in connection with this transaction. A value of \$54.4 million was assigned to intangible assets with an indefinite life, and \$5.3 million of value was assigned to intangible assets with lives ranging from 15 to 21 years.

The purchase price for these assets was consistent with the multiples paid in other similar transactions. Regulatory and strategic considerations contributed to a purchase price that resulted in the recognition of goodwill. The assets reside in progressive regulatory environments where the Company currently operates and broadens the geographic diversity of the Company's total operations. The inclusion of the acquired customers in California and Arizona increases the Company's customers in the Western United States to 10% of its total customer base. With the acquisition, the Company becomes one of the principal water purveyors in the Phoenix area and strengthens its competitive position for the privatization opportunities in this rapidly growing region and the other states included in the acquisition footprint.

The unaudited pro forma results listed below were prepared as if the acquisition occurred on January 1, 2001 and include the historical results of the Company and of the acquired operations. The unaudited pro forma information is not necessarily indicative of the results of operations that might have occurred had the acquisition actually taken place on the date indicated, or of future results of operations of the combined entities:

(\$000's except per share amounts)

Three months ended September 30,	2002	2001
Revenues	\$ 483,457	\$ 429,769
Net income	55,188	58,464
Earnings per average common share outstanding		
Basic	\$.55	\$.58
Diluted	\$.55	\$.58
Nine months ended September 30,	2002	2001
Revenues	\$1,297,035	\$1,164,126
Income before cumulative effect of change in accounting principle	135,628	123,740
Net income	138,307	123,740
Earnings per average common share outstanding		
Income before cumulative effect of change in accounting principle	\$1.35	\$1.24

Cumulative effect of change in accounting principle	.03	-
Basic	\$1.38	\$1.24
Income before cumulative effect of change in accounting principle	\$1.35	\$1.24
Cumulative effect of change in accounting principle	.03	-
Diluted	\$1.38	\$1.24

NOTE 5 -- Acquired Intangible Assets

As of September 30, 2002

(\$000's)

Gross
Carrying
Amount

Accumulated
Amortization

Amortized intangible assets

O&M contracts
\$18,500
\$(1,491)
Communication sites
970
(35)
Total
\$19,470
\$(1,526)

Unamortized intangible assets

Franchise rights
\$54,351

Estimated amortization expense:

For year ended 12/31/03
\$ 1,634

For year ended 12/31/04
\$ 1,694

For year ended 12/31/05
\$ 1,753

For year ended 12/31/06
\$ 1,812

For year ended 12/31/07
\$ 1,799

NOTE 6 -- Goodwill

(\$000's)
Regulated
Utility
Services

Unregulated
Services

Total

Balance as of December 31, 2001

\$ 20,715
\$115,773
\$136,488
Cumulative effect of change
in accounting principle

2,679

-

2,679
Balance as of January 1, 2002
23,394
115,773
139,167
Goodwill acquired during year
84,224
-
84,224
Adjust purchase accounting
-
15,492
15,492
Balance as of September 30, 2002
\$107,618
\$131,265
\$238,883

NOTE 7 -- Other Investments

On April 2, 2002 the Company tendered approximately 2.2 million shares of its 3.5 million shares of ITC Holding Company (ITC) common stock. The Company tendered the shares as part of ITC's program to repurchase its own stock. The Company acquired this stock with the 1999 acquisition of National Enterprises Inc. (NEI) as it was part of NEI's non-water related investments. The sale resulted in proceeds of \$26.2 million, and a \$14 million after-tax gain which was reflected in second quarter 2002 results. This cash gain was offset by a non-cash loss of \$10.8 million, \$6.7 million after tax, that was also recorded during the second quarter when the Company determined that the value of two other securities acquired as part of the NEI acquisition had become permanently impaired. The Company continues to review all reasonable options regarding the remaining

securities that include 1.3 million shares of Deutsche Telekom and 1.3 million shares of ITC acquired as part of the NEI acquisition.

NOTE 8 -- Gain From Sale Of Operating Systems

Kelda Group plc and the Company jointly announced on August 30, 2001 that they had reached an agreement whereby Kelda's Aquarion Company would acquire the Company's New England operations. On April 25, 2002 the Company completed the divestiture and received its initial cash payment of \$120.5 million subject to the terms and conditions of the agreement. An \$18.6 million after-tax gain was reflected in second quarter 2002 results.

The utility operations acquired by Aquarion serve a total of 65,000 customers and had revenues of \$51 million in 2001. A finance subsidiary of the Company, which owned and leased certain assets to its affiliated operating company in Massachusetts, was also acquired by Aquarion as part of the transaction.

NOTE 9 -- Gain On Sale Of Land

Two of the Company's subsidiaries completed separate transactions for the sale of non-essential property that resulted in \$10 million in after-tax gains during the second quarter of 2002. These sales resulted in proceeds of approximately \$16 million.

NOTE 10 -- Revolving Credit Agreement and Long-Term Debt

On July 31, 2002 the Company's financing subsidiary, American Water Capital Corp.(AWCC) extended for one year its current 364-day \$500 million revolving credit agreement with a group of eleven domestic and international banks. The revolving credit agreement supports AWCC's commercial paper program.

Two subsidiaries issued \$39.9 million in tax-exempt long-term debt during the first nine months of 2002.

NOTE 11 -- Earnings Per Share

The average number of shares used to calculate diluted earnings per share includes 15,794 of potential common shares issuable in connection with the long-term incentive program for the three-month period ended September 30, 2001, and 254,529 and 169,624 potential common shares for employee stock options for the three-month periods ended September 30, 2002 and 2001, respectively.

The average number of shares used to calculate diluted earnings per share includes 10,963 of potential common shares issuable in connection with the long-term incentive program for the nine-month period ended September 30, 2001, and 281,740 and 143,850 potential common shares for employee stock options for the nine-month periods ended September 30, 2002 and 2001, respectively.

NOTE 12 -- Segment Information

The following table presents information about the Company's reportable segments.

<TABLE>

Regulated
Utility
Services

Unregulated
Services

Other
Items

Consolidated
(\$000's)

<s>

<c>

<c>

<c>

<c>

Three months ended September 30, 2002

Revenues from external
customers

\$ 421,065

\$ 62,392

\$ -

\$ 483,457

Intersegment revenues

\$ -

\$ 1,956

\$ (1,956)

\$ -

Net income

\$ 67,531

\$ (3,106)

\$ (9,237)

\$ 55,188

Merger expenses

(7)

-

(1,640)

(1,647)

Net income excluding unusual
items

\$ 67,538

\$ (3,106)

\$ (7,597)

\$ 56,835

Three months ended September 30, 2001

Revenues from external
customers

\$ 385,256

\$ 9,700

\$ -

\$ 394,956

Intersegment revenues

\$ -

\$ 1,635

\$ (1,635)

\$ -

Net income

\$ 71,610

\$ (992)

\$(14,841)

\$ 55,777

Merger expenses

-

-

(9,860)

(9,860)

Gain from sale of New
England operations

2,930

-

-

2,930

Gain on other investments

-

-

1,104

1,104

Net income excluding unusual
items

\$ 68,680

\$ (992)

\$ (6,085)

\$ 61,603

Nine months ended September 30, 2002

Revenues from external
customers

\$1,129,511

\$ 162,700

\$ -

\$1,292,211

Intersegment revenues

\$ -

\$ 5,612

\$ (5,612)

\$ -

Income before cumulative
effect of change in
accounting principle

\$ 141,411

\$ (3,658)

\$ (687)

\$ 137,066

Net income

\$ 144,090

\$ (3,658)

\$ (687)

\$ 139,745

Merger expenses

(115)

-

(3,265)

(3,380)

Gain from sale of New

England operations

-

-

18,552

18,552

Gain on other investments

-

-

13,979

13,979

Loss on write down of other

investments

-

-

(6,697)

(6,697)

Gain on sale of land

5,779

4,184

-

9,963

Cumulative effect of change

in accounting principle

2,679

-

-

2,679

Net income excluding unusual
items

\$ 135,747

\$ (7,842)

\$(23,256)

\$ 104,649

Total assets

\$7,283,630

\$338,902

\$ (7,960)

\$7,614,572

Nine months ended September 30, 2001

Revenues from external
customers

\$1,045,312

\$ 29,949

\$ -

\$1,075,261

Intersegment revenues

\$ -

\$ 4,949

\$ (4,949)

\$ -

Income before cumulative
effect of change in
accounting principle

\$ 156,795

\$ (2,357)

\$(25,819)

\$ 128,619

Net income

\$ 156,795

\$ (2,357)

\$(25,819)

\$ 128,619

Merger expenses

-

-

(9,860)

(9,860)

Gain from sale of New
England operations

2,930

-

-

2,930

Gain on other investments

-

-

3,158

3,158

Net income excluding unusual items

\$ 153,865

\$ (2,357)

\$(19,117)

\$ 132,391

Total assets

\$6,251,944

\$108,215

\$ (1,484)

\$6,358,675

</TABLE>

The "other items" include corporate costs of American Water Works Company and intersegment eliminations. Total revenues are from United States of America (U.S.) operations except Unregulated Services Canadian revenues of \$14,711 and \$37,481 for the three and nine months ended September 30, 2002, respectively. Total assets are from U.S. operations except Unregulated Services Canadian assets of \$59,404 at September 30, 2002.

NOTE 13 -- New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase

in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements. The Company does not expect the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

In June 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting For Costs Associated with Exit or Disposal Activities," (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be

recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 146 will have on its results of operations and financial position but does not expect them to be material.

PART I - FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The operating results of the Azurix North American Corp. and Azurix Industrials Corp. (Azurix), and the water and wastewater assets of Citizens Communications Company (Citizens) acquisitions have been included in the consolidated statements of income and comprehensive income since the completion of the acquisitions on November 7, 2001 and January 15, 2002, respectively.

Consolidated revenues for the third quarter and first nine months of 2002 were higher than for the same periods in 2001 by 22% and 20%, respectively. These increases reflect the additional revenues from the Company's Azurix and Citizens acquisitions and revenues from rate increases, that were partially offset by the sale of the New England subsidiaries on April 25, 2002.

Approximately \$53 million and \$133 million of the overall revenue increase in the third quarter and first nine months in 2002 occurred in the unregulated services segment, reflecting the November 2001 acquisition of Azurix. The portion of the Company's overall revenue from its unregulated businesses grew from 2% during the third quarter of 2001 to 13% during the third quarter of 2002.

Regulated business revenues increased by 9% and 8% for the third quarter and first nine months of 2002 compared to the same periods in 2001. The primary reason for the increase in revenue generated by the regulated businesses during the third quarter of 2002 was the addition of \$38 million in revenue from the Citizens acquisition. The Citizens acquisition

added revenues of \$94 million during the first nine months of 2002.

As of November 11, 2002, five utility subsidiaries received rate orders in 2002 that are expected to provide \$31 million in additional annual revenues. The largest of these rate increases was a \$24 million annual rate increase authorization in Pennsylvania that became effective in January of 2002. Three of the Company's subsidiaries have rate increase applications on file requesting additional annual revenues of \$52 million. The \$36 and \$15 million requests by the Company's Illinois and California subsidiaries account for the major portion of the pending requests. Included in the operations covered by the pending rate proceedings in Illinois and California are several of the operating systems that were acquired from Citizens. Rate increases to recover the capital costs related to new facilities necessary to ensure the delivery of high quality water had not been requested by Citizens for the past several years.

Total water sales in 2002 of 116 billion gallons for the third quarter and 282 billion gallons for the first nine months were 13% and 8% higher than for the same periods of 2001, respectively. Water sales were higher in 2002 due to the addition of almost 300,000 customers from the six-state Citizens acquisition and increased sales to residential and small business customers, notwithstanding the impact of drought restrictions, the sale of New England operations with 65,000 customers and declining sales to industrial customers.

Most of the drought restrictions, which were in effect throughout New Jersey, portions of Pennsylvania and some of the Company's smaller east coast subsidiaries, have now been lifted.

Industrial water use continued on a decline that began in late 2001. Industrial sales for the third quarter and first nine months were down 1% and 6%, or 140 million gallons and 2 billion gallons, compared to the same periods in 2001. Lingering weak economic conditions continue to impact water sales to industrial customers. The Company sees no indication that in the near future water sales to industrial customers will strengthen or return to levels experienced in the past.

Operating expenses in the third quarter and the first nine months of 2002 were 36% and 33% higher than the same periods in 2001. The inclusion of the operating expenses related to the Azurix and Citizens operations during the third quarter and first nine months of 2002 significantly increased total expenses as these acquisitions were not part of the Company's consolidated financial information during the same periods last

year. Included in these expenses are costs to integrate the businesses, particularly the Azurix operations into existing operations. These costs will continue throughout the year as the Company continues to transition systems and locations. The increase in third quarter operating expenses reflects an increase of almost \$3 million in pension expense above levels experienced during the third quarter of 2001. The Company resumed funding of its primary pension plan in the third quarter of 2002. The resumption of funding was in part due to the recent poor performance of the financial markets. Because pension expense in excess of amounts contributed to plans is deferred by the regulated subsidiaries in states where rate recovery is based on cash contributions, increased contributions result in increased operating expenses.

The increases in depreciation expense for the third quarter and first nine months were related to the Company's ongoing program of utility plant construction and the additional depreciation associated with the Azurix and Citizens transactions.

Interest expense rose by \$8 million in the third quarter and \$26 million in the first nine months of 2002 compared to the same periods in 2001. This increase is attributable to approximately \$1.2 billion of new debt associated with the Azurix and Citizens acquisitions.

Income taxes increased in the third quarter and first nine months of 2002 when compared to the third quarter and first nine months in 2001 reflecting increased earnings due to the sale of operating systems, investments and land. The Company's effective income tax rate for the nine months ended September 30 increased to 45.7% in 2002 from 41.1% in 2001, reflecting the relatively low tax basis in the stock of the New England subsidiaries that was sold in 2002 and \$3.4 million of expenses incurred in 2002 and \$9.9 million in 2001 in connection with the pending merger with RWE Aktiengesellschaft for which it is not probable that the Company will receive a tax deduction.

Net income to common stock was \$55.2 million for the third quarter of 2002 compared with \$55.6 million for the same period in 2001. Net income to common stock for the first nine months of 2002 was \$139.6 million compared with \$128.2 million for the same period in 2001.

Other comprehensive loss, net of tax, was \$0.4 million in the third quarter of 2002 compared to a \$13.3 million loss in the same period in 2001. Other comprehensive loss, net of tax, was \$1.6 million and \$19.8 million in the first nine months of 2002 and 2001, respectively. The

Company's other comprehensive income or loss represents the after-tax unrealized gain or loss on passive investments in publicly traded securities and foreign currency translation adjustments.

Comprehensive income increased to \$54.8 million and \$138.0 million in the third quarter and first nine months of 2002, respectively, compared to comprehensive income of \$42.3 million and \$108.4 million in the same periods in 2001.

Diluted earnings per share of common stock in the third quarter of 2002 were \$.55 compared to \$.56 in the same period in 2001. The 2002 results included expenses amounting to two-cents per share related to the RWE merger. The 2001 results included a three-cent per share gain from the sale of the Company's New England operations, a one-cent gain from the sale of other investments in Deutsche Telekom stock, and expenses of ten-cents per share related to the RWE merger.

Diluted earnings per share of common stock in the first nine months of 2002 were \$1.39 compared to \$1.29 in the same period in 2001. The 2002 results include a three-cent per share positive impact of adopting the new financial accounting standards relating to business combinations, a 19-cent per share gain from the sale of the Company's New England operations, a 14-cent gain from the sale of other investments in ITC Holding Company stock, a seven-cent loss from the permanent write-down of other investments that were part of non-water investments included in the Company's 1999 acquisition of NEI, a ten-cent gain from sales of land and expenses of three-cents per share related to the RWE merger. The 2001 results included a three-cents per share gain from the sale of the Company's New England operations, a three-cent per share gain from the sale of other investments in Deutsche Telekom stock, and expenses of ten-cents per share related to the RWE merger.

Capital Resources and Liquidity

On January 14, 2002 the Company's financing subsidiary, American Water Capital Corp.(AWCC) closed on its second and final issue totaling \$900 million under its November 6, 2001 Note Purchase Agreement with RWE. These 4.92% notes were primarily used to fund the acquisition of the Citizens water and wastewater assets. On June 12, 2002 the Company and AWCC executed another Note Purchase Agreement with RWE for up to \$320 million in senior unsecured notes. The agreement allows AWCC to issue up to \$170 million in notes at an interest rate of 5.65% maturing on June 12, 2007 and \$150 million in notes at a floating interest rate based on LIBOR

rates plus 20 basis points maturing on June 26, 2003. Closing occurred on \$40 million of the 5.65% senior notes on June 12, 2002. The remaining \$130 million of 5.65% notes closed on September 30, 2002. AWCC intends to issue the floating rate notes in the fourth quarter and will use the proceeds to repay other short-term debt.

On July 31, 2002 AWCC extended for one year its current 364-day \$500 million revolving credit agreement with a group of eleven domestic and international banks. The revolving credit agreement supports AWCC's commercial paper program.

Two subsidiaries issued \$39.9 million in tax-exempt long-term debt during the first nine months of 2002.

In the first nine months of 2002, the Company invested \$19.5 million in the common stock of three subsidiaries.

A condition of the merger agreement with RWE required the Company to redeem all of its issued and outstanding shares of 5% Cumulative Preference Stock and 5% Cumulative Preferred Stock prior to closing. That redemption was completed on March 1, 2002. The 365,158 shares of 5% Cumulative Preference Stock were redeemed for \$25.00 per share and the 101,777 shares of 5% Cumulative Preferred Stock were redeemed for \$25.25 per share, in each case without interest.

On April 2, 2002 the Company tendered approximately 2.2 million shares of its 3.5 million shares of ITC Holding Company (ITC) common stock. The Company tendered the shares as part of ITC's program to repurchase its own stock. The Company acquired this stock with the 1999 acquisition of National Enterprises Inc. (NEI) as it was part of NEI's non-water related investments. The sale resulted in proceeds of \$26.2 million, and a \$14 million after-tax gain which was reflected in second quarter 2002 results. This cash gain was offset by a non-cash loss of \$10.8 million, \$6.7 million after tax, that was also recorded during the second quarter when the Company determined that the value of two other securities acquired as part of the NEI acquisition had become permanently impaired. The Company continues to review all reasonable options regarding the remaining securities that include 1.3 million shares of Deutsche Telekom and 1.3 million shares of ITC acquired as part of the NEI acquisition.

During the first nine months of 2002, the market value of the assets in the Company's defined benefit pension plans declined by approximately \$51 million, or 14%, due to plan benefit payments and the poor performance of

the financial markets in 2002. After a period of several years in which the Company was not allowed to make tax deductible contributions to its primary pension plan, funding resumed in the third quarter of 2002 at an annual level of approximately \$12.3 million. Continued poor performance of the financial markets may also significantly increase future pension expense and funding requirements beyond 2002. Management believes any additional contributions to the pension plans could be funded without any significant impact on liquidity. If the actual return on pension plan assets was zero for the balance of the year and the appropriate discount rate at year-end was 6.75%, the estimated accumulated benefit obligation at December 31 would exceed the market value of plan assets by approximately \$80 million. This would require an unfavorable after-tax adjustment of approximately \$15 million to other comprehensive income and shareholders' equity at December 31, 2002. Since September 30, equity values and the appropriate discount rate have increased. If these trends hold for the rest of 2002 the charge to other comprehensive income will be reduced.

Condemnation of Utility Systems

As previously reported, the cities of Pekin and Peoria in Illinois are seeking to acquire the utility assets of Illinois-American Water Company that are used to provide water service to their respective communities. Illinois-American is seeking to appeal an Illinois appellate court decision affirming a lower court decision that an 1889 franchise agreement gives the City of Peoria the right to purchase Illinois-American's assets there. The City of Pekin has filed a petition with the Illinois Commerce Commission requesting the Commission's determination that the City of Pekin may acquire Illinois-American's assets there by the use of eminent domain. Illinois-American is vigorously contesting these proposed takeovers.

In California, The Montara Sanitary District has filed a lawsuit seeking to condemn California-American's water system there, an action being vigorously contested by California-American.

In other locations local governments have evidenced an interest in acquiring some assets of the Company's subsidiaries, but have not taken any formal steps to acquire them by eminent domain. The City of Lexington, Kentucky has hired a financial adviser to prepare an initial valuation of Kentucky-American in contemplation of a possible acquisition of that Company's assets. The City Council of the City of Hopewell Virginia has authorized the City to acquire Virginia-American's Hopewell

Division. Each of Kentucky-American and Virginia-American is opposing the attempt to acquire its assets in these places.

The Company does not consider any of the forgoing actions to be material individually, nor, given the Company's view that the probability is remote that all of them would result in a taking, does it believe that they are material in the aggregate.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," (SFAS 143) on the accounting for obligations associated with the retirement of long-lived assets. SFAS 143 requires a liability to be recognized in the financial statements for retirement obligations meeting specific criteria. Measurement of the initial obligation is to approximate fair value with an equivalent amount recorded as an increase in the value of the capitalized asset. The asset will be depreciable in accordance with normal depreciation policy and the liability will be increased, with a charge to the income statement, until the obligation is settled. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 143 will have on its results of operations and financial position but does not expect them to be material.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," (SFAS 144) that replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS 144 requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens discontinued operations to include more disposal transactions. Under SFAS 144, operating losses of discontinued operations are recognized in the period in which they occur, instead of accruing future operating losses before they occur. The effects of adoption of the provisions of SFAS 144 by the Company on January 1, 2002 did not have a material effect on its results of operations and financial position.

In April 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 145, "Recession of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections (SFAS 145)." SFAS 145 updates, clarifies and simplifies

existing accounting pronouncements. The Company does not expect the adoption of the provisions of SFAS 145 to have a material effect on its results of operations and financial position.

In June 2002 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting For Costs Associated with Exit or Disposal Activities," (SFAS 146). SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effects that adoption of the provisions of SFAS 146 will have on its results of operations and financial position but does not expect them to be material.

Forward Looking Information

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases, inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions, weather conditions that tend to extremes of temperature or duration; availability, terms and development of capital; business abilities and judgment of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; competition; success of operating initiatives, advertising and promotional

efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; general economic and business conditions; and other factors described in filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no significant changes in the Company's exposure to market risks described in the Company's Annual Report on Form 10-K for the Year Ended December 31, 2001.

Item 4. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures within 90 days of the filing date of this quarterly report, and they concluded that these controls and procedures are effective. There were no significant changes in internal controls or in other factors that could significantly affect these internal controls subsequent to the date of that evaluation.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

Exhibit Number Description

99 Additional Exhibits

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

B. Reports on Form 8-K

A current report on Form 8-K was filed on July 16, 2002 by the Company regarding the expiration of the waiting period under Hart-Scott-Rodino Antitrust Improvements Act of 1976 in respect of its notification filed regarding the proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on July 29, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on August 7, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on August 7, 2002 by the Company regarding each of the Principal Executive Officer and Principal Financial Officer's submitted sworn statements to the SEC pursuant to Securities and Exchange Commission Order No. 4-460.

A current report on Form 8-K was filed on September 9, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

A current report on Form 8-K was filed on September 30, 2002 by the Company regarding an employee communication relating to its proposed merger with and into a subsidiary of RWE/AG.

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.

AMERICAN WATER WORKS COMPANY, INC.
(Registrant)

Date November 14, 2002 \s\ Ellen C. Wolf

Vice President and Chief Financial Officer
(Authorized Officer)

Date November 14, 2002 \s\ Robert D. Sievers

Comptroller
(Chief Accounting Officer)

CERTIFICATIONS

I, J. James Barr, 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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002 \s\ J. James Barr

President and CEO

CERTIFICATIONS

I, Ellen C. Wolf, 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

\s\ Ellen C. Wolf

Vice President and Chief Financial Officer

</TEXT>

</DOCUMENT>