

**KENTUCKY AMERICAN WATER
ANNUAL BUSINESS PLAN**

| DESCRIPTION | Proposed 2007 Plan | Proposed 2008 Plan |
|----------------------------------|--------------------------|--------------------------|
| OPERATING REVENUES | | |
| Water | 49,911,821 | 57,313,869 |
| Sewer | 277,656 | 277,656 |
| Other | 1,891,356 | 1,891,356 |
| Management | | |
| Total | 52,080,833 | 59,482,881 |
| OPERATING EXPENSES | | |
| Labor | 5,843,056 | 6,076,778 |
| Purchased Water | 496,300 | 510,050 |
| Fuel & Power | 2,960,000 | 3,063,599 |
| Chemicals | 1,590,118 | 1,653,724 |
| Waste Disposal | 232,325 | 270,187 |
| Management Fees | 6,987,757 | 6,477,009 |
| Group Insurance | 1,653,852 | 1,728,792 |
| Pensions | 455,724 | 387,252 |
| Regulatory Expense | 405,531 | 607,390 |
| Insur. Oth. Than Group | 780,864 | 842,676 |
| Customer Accounting | 1,389,300 | 1,465,838 |
| Rents | 32,000 | 32,180 |
| General Office Expense | 478,005 | 474,614 |
| Miscellaneous | 3,037,197 | 3,123,348 |
| Other | 1,480,291 | 1,529,855 |
| Total O&M | 27,822,320 | 28,243,292 |
| Depreciation | 8,134,216 | 8,618,127 |
| Amortization | 410,580 | 410,580 |
| General Taxes | 2,855,507 | 2,890,606 |
| Total Operating Exp. | 39,222,623 | 40,162,605 |
| Utility Operating Income | 12,858,210 | 19,320,275 |
| OTHER INC & DEDUCT | | |
| Nonoperating Rent. Inc. | | |
| Dividend Income-Common | | |
| -Preferred | 0 | 0 |
| Interest Income | 0 | 0 |
| AFUDC - Equity | 681,062 | 2,056,269 |
| M & J & Miscell Income | 0 | 0 |
| Gain (Loss) on Dispos. | 0 | 0 |
| Tot.Other Inc. | 681,062 | 2,056,269 |
| Misc. Amortization | 768 | 768 |
| Misc. Other Deductions | 277,323 | 261,113 |
| General Taxes | | |
| Tot.Oth.Deducts | 278,091 | 261,881 |
| Tot.Oth.Inc Net | 402,971 | 1,794,388 |
| Income Before Taxes and Interest | 13,261,181 | 21,114,663 |
| INTEREST CHARGES | | |
| Interest Long Term Dbt | 5,686,450 | 6,579,455 |
| Amort Of Debt Expense | 131,461 | 153,348 |
| Int Short Term Bank Dbt | 291,367 | 532,822 |
| Other Interest Expense | 0 | 0 |
| AFUDC - Debt | (309,295) | (933,825) |
| Total Interest Expense | 5,799,983 | 6,331,800 |
| Income Before Taxes | 7,461,199 | 14,782,863 |
| State Income Taxes | 364,602 | 698,597 |
| Federal Income Taxes | 2,595,111 | 5,049,094 |
| State Income Taxes | (22,879) | (21,542) |
| Federal Income Taxes | (89,055) | (83,850) |
| Total Income Taxes | 2,847,778 | 5,642,300 |
| NET INCOME | 4,613,420 | 9,140,564 |
| Preferred Dividends | 459,897 | 459,898 |
| Net Income Common Stock | 4,153,523 | 8,680,666 |