

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 – January
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky
US GAAP

January-2004 Month to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net		Capex
				Operating Assets	Net Debt	
2,261	(2)	(232)	768	155,197	(83,155)	4,385
2,753	116	(276)	(56)	155,351	(84,148)	436
492	118	(44)	(824)	154	(993)	(3,949)
Variance Explanations						
Revenue						
Residential Demand	1,688	1,688	1,688	1,688	1,688	-
Industrial Demand	8	8	8	8	8	-
Unbilled Revenue Issues	(1,919)	(1,919)	(1,919)	(1,919)	(1,919)	-
Wastewater	(19)	(19)	(19)	(19)	(19)	-
Other 1	734	734	734	734	734	-
Operating Result						
Production Costs (revenue related)	(85)	(85)	(85)	(85)	(85)	-
Management fees: central	47	47	47	47	47	-
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
Insurance	(10)	(10)	(10)	(10)	(10)	-
Miscellaneous Oper. Expenses	(104)	(104)	(104)	(104)	(104)	-
Pension Costs	1	1	1	1	1	-
Security Costs	-	-	-	-	-	-
Labor Costs	(24)	(24)	(24)	(24)	(24)	-
Uncollectibles	(22)	(22)	(22)	(22)	(22)	-
Depreciation	(175)	(175)	(175)	(175)	(175)	-
Other 2	(2)	(2)	(2)	(2)	(2)	-
Other 3	-	-	-	-	-	-
Profit Before Tax						
AFUDC	-	8	8	8	8	-
Interest (rates)	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	(5)	(5)	(5)	(5)	-
Amortization	-	-	-	-	-	-
Other 4	-	(165)	(165)	(165)	(165)	-
Operating Cash Flow						
Working Capital ¹	-	-	(1,542)	-	-	-
Change in Provisions	-	-	349	-	-	-
Other 5	-	-	413	4,147	(4,898)	-
Net Op. Assets/Net Debt/CapEx						
CapEx: Weather Delays	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	-	-
CapEx: Project 1	-	-	-	(3,949)	3,949	(3,949)
CapEx: Project 2	-	-	-	-	-	-
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-
Unexplained Variance - month to date						
-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky
US GAAP**

January-2004 Year to Date							
	Operating	Profit	Operating	Net		Capex	
Turnover	Result	Before Tax	Cash Flow	Assets	Net Debt		
TYB	2,261	(2)	(232)	768	155,197	(83,155)	4,385
Enter Estimate of Actuals here							
Actuals (will auto-populate when available)	2,753	116	(276)	(56)	155,351	(84,148)	436
Variance	492	118	(44)	(824)	154	(993)	(3,949)
Variance Explanations							
Revenue							
Residential Demand	1,688	1,688	1,688	1,688	1,688	1,688	-
Industrial Demand	8	8	8	8	8	8	-
Unbilled Revenue Issues	(1,919)	(1,919)	(1,919)	(1,919)	(1,919)	(1,919)	-
Wastewater	(19)	(19)	(19)	(19)	(19)	(19)	-
Other 1	734	734	734	734	734	734	-
Operating Result							
Production Costs (revenue related)		(85)	(85)	(85)	(85)	(85)	-
Management fees: central		47	47	47	47	47	-
Management fees: local							-
Main breaks							-
Insurance		(10)	(10)	(10)	(10)	(10)	-
Miscellaneous Oper. Expense		(104)	(104)	(104)	(104)	(104)	-
Pension Costs		1	1	1	1	1	-
Security Costs							-
Labor Costs		(24)	(24)	(24)	(24)	(24)	-
Uncollectibles		(22)	(22)	(22)	(22)	(22)	-
Depreciation		(175)	(175)	(175)	(175)	(175)	-
Other 2		(2)	(2)	(2)	(2)	(2)	-
Other 3							-
Profit Before Tax							
AFUOC			8	8	8	8	-
Interest (rates)							-
Interest (increase/decrease borrowing)			(5)	(5)	(5)	(5)	-
Amortization							-
Other 4			(165)	(165)	(165)	(165)	-
Operating Cash Flow							
Working Capital ¹				(1,542)			-
Change in Provisions				349			-
Other 5				413	4,147	(4,898)	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays							-
CapEx: Efficiencies							-
CapEx: Project I							-
CapEx: Project II					(3,949)	3,949	(3,949)
CapEx: Project 2							-
Other 6							-
Other 7							-
Unexplained Variance - year to date							

¹ Please explain in variance analysis narrative of MD report

Comments:

Revenue YTD vs Budget – Revenues for January exceeded plan due to a shift in the closing schedule. This variance will carry for the next year until it self corrects in December 2004. Adjustment will be made to reflect this change in the Q1RF.

Growth from "tuck-in" acquisitions (operating result explanation and potential growth opportunities) – Tuck-in: Asset purchase agreement was signed with City of Owenton on January 15 for water and wastewater customers. Approval is expected in 2004 pending PSC action and receipt of infrastructure grants and financing arrangements.

Operating Result YTD vs Budget – Operating result is over plan by \$118,000. The additional week of revenue was partially offset by increased production costs, miscellaneous general expense and depreciation.

Net Debt YTD vs Budget – Exceeded budget by \$993,000 due to timing variances in the beginning balance. This is expected to correct in subsequent months.

Capex YTD vs Budget – Capex spending is \$3,949 million behind plan due to inclement weather and invoice timing. The Company expects to spend its Capex budget for the year.

2. REGULATORY RELATIONS

Recalculation of franchise fees to the Lexington-Fayette urban County Government (LFUCG) has tentatively shown a need to request a refund for duplicate payments and also for fees applied by KAW to the Kentucky River Withdrawal Fee. Arbitration or litigation may result if the LFUCG disagrees with the Company's calculations. The Company has requested Commission approval for deferred accounting treatment for costs of security and business services transition in a formal petition filed on December 12, 2003.

3. PROCESS INDICATORS

Service and Quality – Field service orders are 65% completed based on the schedule date of the order. There is a high volume of backlog of field orders due to current vacancies. This is being addressed through the hiring of contract labor until the permanent vacancies are filled. All orders completed in the field and turned in at days end are closed the same evening as worked by the order closers. Any after hour orders are normally closed by 8:00 am, the first shift begins at 7:00 am.

Targets for estimated reads have been met for both month and YTD with a 1% estimated readings not considering weather as factor. Taking into account inclement weather, the estimated reads are actually 7%.

The Company began non-pay shut offs on December 5, 2003, after a short delay due to the new notice process. The Company has worked 98% of the orders issued daily, canceling only those who paid after the order was issued, orders over the amount determined by the field crew could work that day, and any major accounts (i.e. GE, Toyota, hospitals) are contacted by telephone.

Business Change Projects – The Company is currently developing schedules to track the initiative savings.

Environmental Performance – KAW continues to negotiate with the Winchester Municipal Utilities (WMU) to close a small sewage treatment plant serving about 90 customers to the WMU system. A court order mandated the connection, but a dispute exists over the cost and responsibility for off-site capital improvements that WMU is requiring. Failure to reach an agreement may result in further litigation.

Safety Performance – The Company had one workers' compensation claim filed for the month. A meter reader slipped on an incline and sustained injury to his ribs (1 lost day). There were no OSHA inspections or violations reported. There were 2 insurance liability claims filed during the month. A claimant states that he was walking on a snow covered sidewalk and stepped in an uncovered meter box causing injury to his back and hip. The second claim involved a house being flooded when the Company turned water on without the customer being present.

Rate Case Management – A rate increase will likely be filed in the second quarter of this year. Critical issues include recovery of deferrals for security expenses and expenses associated with the transition costs to the National Call Center and Shared Services. Rate increases will also be sought from non-contiguous customers acquired in the Tri-Village and Owenton acquisitions.

4. EMPLOYEE INDICATORS

Key Employee indicators – Actual employees at the end of the month is 128, authorized is 134 (1 additional teller through March 2004). Efforts are under way to fill those vacancies.

The general safety meeting for all employees will be conducted on January 30. This is an opportunity to provide a motivational program to keep safety in everyone's mind. During the year, the Company will conduct some team building exercises in the various departments.

Employees – A recommendation has been made to fill some vacancies in the distribution and engineering department. Labor relations are good. There are no outstanding grievances. License to Manage training will begin in February. Performance reviews are being conducted with the union treatment plant operators and the union field service records clerks as part of the operator incentive program.

5. RISKS AND OPPORTUNITIES

Opportunity – The Bluegrass Water Supply Consortium group will issue its report soon regarding a regional water supply solution. Current state law only allows municipals to join, but KAW may contract for participation. The immediate issue will be the need for approximately \$500,000 for an engineering plan for the proposed new regional treatment plant and grid distribution system.

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 –February
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky
US GAAP

February-2004 Month to Date						
Turnover	Operating Result	Pmnt Before Tax	Operating Cash Flow	Net		Capex
				Operating Assets	Net Debt	
2,984	537	183	1,191	155,326	(83,438)	775
3,056	394	16	2,547	153,165	(82,011)	1,187
72	(143)	(167)	1,356	(2,161)	1,427	412
Variance Explanations						
Revenue						
Residential Demand	32	32	32	32	32	-
Industrial Demand	(11)	(11)	(11)	(11)	(11)	-
Unbilled Revenue Issues	172	172	172	172	172	-
Wastewater	(21)	(21)	(21)	(21)	(21)	-
Other 1	(100)	(100)	(100)	(100)	(100)	-
Operating Result						
Production Costs (revenue related)	29	29	29	29	29	-
Management fees: central	(256)	(256)	(256)	(256)	(256)	-
Management fees: local						-
Main breaks insurance	(24)	(24)	(24)	(24)	(24)	-
Miscellaneous Oper. Expenses	(6)	(6)	(6)	(6)	(6)	-
Pension Costs	56	56	56	56	56	-
Security Costs						-
Labor Casts	(3)	(3)	(3)	(3)	(3)	-
Uncollectibles	1	1	1	1	1	-
Depreciation	(48)	(48)	(48)	(48)	(48)	-
Other 2	36	36	36	36	36	-
Other 3						-
Profit Before Tax						
AFUDC		12	12	12	12	-
Interest (rates)						-
interest (increase/decrease borrowing)		16	16	16	16	-
Amortization						-
Other 4		(52)	(52)	(52)	(52)	-
Operating Cash Flow						
Working Capital ¹			1,440			-
Change in Provisions			88			-
Other 5			(5)	(2,406)	2,006	-
Net Op. Assets/Net Debt/CapEx						
CapEx: Weather Delays						-
CapEx: Efficiencies						-
CapEx: Project 1				412	(412)	412
CapEx: Project 2						-
Other 6						-
Other 7						-
Unexplained Variance - month to date						

¹ Please explain in variance analysis narrative of MD report

**Kentucky
US GAAP**

N B
Enter Estimate of Actuals here
Actuals (will auto-populate when available)
Variance

February-2004 Year to Date							
	Net						
	Operating Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Operating Assets	Net Debt	Capex
	5,245	535	(49)	1,959	155,326	(83,438)	5,160
	-	-	-	-	-	-	-
	5,809	510	(260)	2,491	153,165	(82,011)	1,623
	564	(25)	(211)	532	(2,161)	1,427	(3,537)
Variance Explanations							
Revenue							
Residential Demand	1,720	1,720	1,720	1,720	1,720	1,720	-
Industrial Demand	(3)	(3)	(3)	(3)	(3)	(3)	-
Unbilled Revenue issues	(1,747)	(1,747)	(1,747)	(1,747)	(1,747)	(1,747)	-
Wastewater	(40)	(40)	(40)	(40)	(40)	(40)	-
Other 1	634	634	634	634	634	634	-
Operating Result							
Production Costs (revenue related)		(56)	(56)	(56)	(56)	(56)	-
Management fees: central		(209)	(209)	(209)	(209)	(209)	-
Management fees: local							-
Main breaks							-
Insurance		(34)	(34)	(34)	(34)	(34)	-
Miscellaneous Oper Expense		(110)	(110)	(110)	(110)	(110)	-
Pension Costs		57	57	57	57	57	-
Security Casts							-
Labor Costs		(27)	(27)	(27)	(27)	(27)	-
Uncollectibles		(21)	(21)	(21)	(21)	(21)	-
Depreciation		(223)	(223)	(223)	(223)	(223)	-
Other 2		34	34	34	34	34	-
Other 3							-
Profit Before Tax							
AFUDC			20	20	20	20	-
Interes (rates)							-
Interest (increase/decrease borrowing)			11	11	11	11	-
Amortization							-
Other 4			(217)	(217)	(217)	(217)	-
Operating Cash Flow							
Working Capital ¹				(102)			-
Change in Provisions				437			-
Other 5				408	1,587	(1,899)	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays							-
CapEx: Efficiencies							-
CapEx: Project 1					(3,537)	3,537	(3,537)
CapEx: Project 2							-
Other 6							-
Other 7							-
Unexplained Variance - year to date							

¹ Please explain in variance analysis narrative of MD report

Comments:

Owenton Water and Sewer System acquisition was finalized in January. Closing expected in Q2-2004, pending final regulatory approval.

Revenues YTD vs Budget – Revenues for the 2 months ended February were \$564,000 over plan. The additional week in January accounting accounts for most of the favorable variance. This will self correct in December 2004 and the Q1RF will reflect this adjustment.

Operating Result YTD vs Budget – Operating result is under plan by \$25,000. Increases in management fees and depreciation account for the majority of the expense offset to increased revenue. The budget monthly allocation of management fees and depreciation are incorrect and this variance is expected to self correct in subsequent months.

Net Debt YTD vs Budget – Due to timing differences in Capex spend, the net debt is lower by \$1.428 million than budget. This variance is expected to self correct in subsequent months.

Capex YTD vs Budget – is under plan \$3.537 million due to delays related to inclement weather and of invoices timing. The Company expects to spend its Capex budget for the year.

2. REGULATORY RELATIONS

RWE Appeals – No change from the last report. All issues have been briefed by all parties and they are awaiting further action by the court.

Regulatory Meeting - A meeting of Southeast Region personnel involved in the economic regulatory process, respective outside council and the regulatory group from the Business Center met in Hershey. The purpose of the meeting was to discuss innovative approaches to various challenges, become better informed on the regulatory differences in each jurisdiction and to foster an atmosphere of cooperation and knowledge sharing.

3. PROCESS INDICATORS

Service and Quality – Bad weather continued to plague Kentucky American Water during the period which resulted in fewer actual meter reads being obtained and reduced shut offs when compared to plan. The Company continues to strive to reach and maintain the goal of 98% actual reads.

Safety Performance – There were no reported health and safety concerns in period 2. Health and safety training, jobsite inspections and reviews of programs continue monthly in all operations.

4. EMPLOYEE INDICATORS

The "Ideas Into Action" program continues to move forward. A brochure has been distributed to employees summarizing the highlights of the theme "We Believe It...Let's Achieve It".

The Company has received the necessary information for completion of the annual wage increase proposals. The information has been broken down by function and distributed for review and completion. While the time requirements are tight, this important task will be completed timely. Every vacancy will be carefully reviewed to ensure that it is absolutely necessary to fill the position.

Employee development focused on the first module of the License to Management program.

5. RISK AND OPPORTUNITIES

While there is currently an effort to minimize write-offs and increase collections, this vulnerability reflects a continuation of the higher levels of uncollectible expense.

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 –March
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky
US GAAP

March-2004						
Month to Date						
Turnover	Operating Result	Pmnt Before Tax	Operating Cash Flow	Net		
				Operating Assets	Net Debt	Capex
4,204	1,741	1,297	2,417	155,252	(83,658)	1,264
4,070	1,297	729	951	154,264	(83,432)	704
(134)	(444)	(568)	(1,466)	(988)	226	(560)
Variance Explanations						
Revenue						
Residential Demand	(266)	(266)	(266)	(266)	(266)	-
Industrial Demand	8	8	8	8	8	-
Unbilled Revenue Issues	116	116	116	116	116	-
Wastewater	(21)	(21)	(21)	(21)	(21)	-
Other 1	29	29	29	29	29	-
Operating Result						
Production Cons (revenue related)	60	60	60	60	60	-
Management fees: central	(463)	(463)	(463)	(463)	(463)	-
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
Insurance	3	3	3	3	3	-
Miscellaneous Oper. Expense	(14)	(14)	(14)	(14)	(14)	-
Pension Costs	38	38	38	38	38	-
Security Cons	-	-	-	-	-	-
Labor Costs	53	53	53	53	53	-
Uncollectibles	8	8	8	8	8	-
Depreciation	(53)	(53)	(53)	(53)	(53)	-
Other 2	58	58	58	58	58	-
Other 3	-	-	-	-	-	-
Profit Before Tax						
AFUDC	-	17	17	17	17	-
Interest (rates)	-	36	36	36	36	-
Interest (increase/decrease borrowing)	-	-	-	-	-	-
Amortization	-	-	-	-	-	-
Other 4	-	(177)	(177)	(177)	(177)	-
Operating Cash Flow						
Working Capital ¹	-	-	(759)	-	-	-
Change in Provisions	-	-	(318)	-	-	-
Other 5	-	-	179	140	234	-
Net Op. Assets/Net Debt/CapEx						
CapEx: Weather Delay;	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	-	-
CapEx: Project 1	-	-	-	(560)	560	(560)
CapEx: Project 2	-	-	-	-	-	-
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-
Unexplained Variance - month to date						

¹ Please explain in variance analysis narrative of MD report

Kentucky
US GAAP

March-2004
Year to Date

TYB
Enter Estimate of **Actuals** here
Actuals (will auto-populate when available)
Variance

Variance Explanations

Revenue

	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
Residential Demand	1,454	1,454	1,454	1,454	1,454	-
Industrial Demand	5	5	5	5	5	-
Unbilled Revenue Issues	(1,631)	(1,631)	(1,631)	(1,631)	(1,631)	-
wastewater	(61)	(61)	(61)	(61)	(61)	-
Other 1	663	663	663	663	663	-

Operating **Result**

Production Costs (revenue related)	4	4	4	4	4	-
Management fees: central	(672)	(672)	(672)	(672)	(672)	-
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
insurance	(31)	(31)	(31)	(31)	(31)	-
Miscellaneous Oper Expenses	(124)	(124)	(124)	(124)	(124)	-
Pension Costs	95	95	95	95	95	-
Security Costs	-	-	-	-	-	-
Labor Costs	26	26	26	26	26	-
Uncollectibles	(13)	(13)	(13)	(13)	(13)	-
Depreciation	(276)	(276)	(276)	(276)	(276)	-
Other 2	92	92	92	92	92	-
Other 3	-	-	-	-	-	-

Profit Before Tax

AFUDC	-	37	37	37	37	-
Interest (ales)	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	47	47	47	47	-
Amortization	-	-	-	-	-	-
Other 4	-	(394)	(394)	(394)	(394)	-

Operating **Cash Flow**

Working Capital ¹	-	-	(861)	-	-	-
Change in Provisions	-	-	119	-	-	-
Other 5	-	-	587	3,888	(3,092)	-

Net Op. **Assets/Net Debt/CapEx**

CapEx: Weather Delays	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	-	-
CapEx: Project 1	-	-	-	(4,097)	4,097	(4,097)
CapEx: Project 2	-	-	-	-	-	-
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-

Unexplained Variance - year to date

¹ Please explain in variance analysis narrative of MD report

**Kentucky American Water
Executive Summary
March-04**

Executive Summary:

Financial Performance (Briefly describe the following KPIs against Budget and latest Forecast):

Operating Result

vs Budget - Operating result for the month is \$444,000 under budget. Revenues are under budget \$134,000 for the month and over \$430,000 for the quarter. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. The remaining variance is reflected in management fees and regulatory expense. Management fees are over plan for March by \$318,000. The company expects this to reverse in subsequent months and we expect management fees to be on target for the year. Rate cases are over plan \$83,000 due to escalation of the case preparation. The plan level of rate case expense for the year is expected to be sufficient. March YTD operating result is under plan \$469,000. Management fees and rate case expenses that will reverse in subsequent months will return the Company to plan levels.

Free Cash Flow I

vs Budget - Free cash flow is an unfavorable variance of \$1.5 million for the month due to lower OR and timing of payments. The M D variance to budget is a favorable \$4.2 million due to delays and reductions in CAPEX. The company expects to spend its capex for the year as indicated in the Q1RF

vs Forecast - Free cash flow is a favorable variance of \$700,000 for March due to delays in Capex. The M D variance is also a favorable \$700,000 due to delays in Capex. The company expects to spend the level of capex included in the Q1RF for the year.

Net Debt

vs Budget - March exceeds the plan by \$4.2 million due to an error in the Hyperion load regarding preferred stock. The budget did not reflect the preferred stock in debt, however this has no impact on net operating assets.

Value Contribution

vs Budget - The value contribution calculated on March M D annualized OR reflects a negative variance of \$2.7 million due to less allocation of OR to Q1 and the impact of the rate increase not scheduled until December.

vs Forecast - The unfavorable variance of \$2.3 million to forecast results from lower Q1 OR. This will reverse as management fees and rate case expense self correct in subsequent months, and the rate case and Owenton acquisition are completed later in the year.

Operational Performance (Briefly describe the key operating issues over the period):

The major issue at KAWC continues to be the condemnation effort by the LFUCG. On April 7th, the three Commissioners assigned by the Court to determine value reported the value at \$190,000,000. The Company has a right to object to the taking and object to the value set by the commissioners after receipt of summons from the LFUCG. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

**Kentucky American Water
Financial Indicators
Actual vs Budget - March 2004**

Financial Indicators (Briefly describe the following KPIs against Budget & latest Forecast):

Turnover

Month vs Budget - Revenue for the month was \$134,000 under budget. This is primarily due to residential demand being down and sale for resale being less than anticipated. System delivery is approximately 7.0 MG over plan for March and the March revenue shortfall is expected to be made up in April.

YTD vs Budget - Reported revenue is \$430,000 over budget. This is primarily due to the extra week of revenues in January adjusted for the residential demand being down in March.

OPEX (excl Depn)

Month vs Budget - OPEX has an unfavorable variance for the month. This is a result of management fees, depreciation and property taxes. We still anticipate management fees and rate case expense will be on target for the year.

YTD vs Budget - OPEX is an unfavorable variance for YTD. This is primarily the result of timing of management fees, depreciation and general taxes. The Company anticipates management fees and depreciation expense to be on target for the year.

Operatina Result

Month vs Budget - OR for the month reflects an unfavorable variance of \$444,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

YTD vs Budget - OR for YTD reflects an unfavorable variance of \$469,000. This is reflected in the previously mentioned revenues and OPEX explanations.

Financial Result (Confirm the Interest rates that are in the Actual/Budget)

Month vs Budget -

YTD vs Budget -

Capex, gross

Month vs Budget - CAPEX is \$560,000 under budget because of delays in construction. The company expects to spend capex in Q1RF for the year

YTD vs Budget - CAPEX is \$4.097 million under budget due to delays. The company still expects to spend capex at the level in Q1RF for the year.

Net Cash from Operatina Activities

Month vs Budget - The unfavorable variance reflects catch-up of several payments scheduled for February

YTD vs Budget - The YTD variance is related to timing and will self correct.

Free Cash Flow I

Month vs Budget - The unfavorable \$1.5 million variance is due to lower OR and timing of payments.

YTD vs Budget - The favorable \$4.2 million variance reflects delays in capex spending.

Investments & Disposal Proceeds

Month vs Budget -

YTD vs Budget -

Kentucky American Water
Financial Indicators
Actual vs Budget * March 2004

Financial Indicators (Briefly describe the following KPIs against Budget & latest Forecast):

Free Cash Flow II

Month vs Budget - Unfavorable variance of \$1.5 million, see explanation for Free Cash Flow I

YTD vs Budget - Favorable variance of \$4.1 million, see explanation for Free Cash Flow I

Net Debt

Except for a minor timing issue net debt is on line with the plan

Net Operating Assets

YTD vs Budget - A reduction from plan of \$988,000 results from lower capex offset by lower OR

Value Contribution

YTD vs Budget - The YTD unfavorable variance of \$2.7 million results from lower Q1 OR (used to annualize OR for year). This variance will self correct for the year as Q1 overages in management fees and depreciation expense correct and the rate increase becomes effective in December.

Headcount

YTD vs Budget - The headcount reflects 9 current vacancies (including 2 not scheduled for replacement in the rate case). The remaining vacancies are being actively pursued.

Kentucky American Water
Markets/Customer Indicators
March-04

Markets/Customer Indicators

Markets

Growth from Non-regulated business -Value Contribution explanation and potential growth initiatives

YTD vs Budget - KAWC is now providing management services to the City of Jackson KY and the Bluegrass Depot.

YTD vs Forecast -

Growth from 'tuck-in' acquisitions - Operating Result explanation and potential growth opportunities

YTD vs Budget - The Company has included the acquisition of Owenton Water & Sewer in the third quarter. This acquisition contract has been executed and will provide the additional OR included in the plan and forecast.

YTD vs Forecast -

Customer Indicators

The survey will be conducted in Q1 to establish a target for Q4 survey.

The scorecard for monthly customer care indicates improvement in call volume, % estimated readings, average A/R days outstanding, avg. answer time, time in queue, and use of IVR. Average handle time declined slightly as did past due shut-offs, billing exceptions, number of accounts on hold, and PUC complaints. The Company believes the customer care center service is performing up to expectations and continues to work with Alton on areas needing coordination and improvement.

Regulatory Relations

Mr. Mundy and Mr. Whitehouse meet with the PSC Commissioners on March 18 to meet the new Chairman and update them on the Company. There have been several discussions with Staff regarding the deferral of security costs, and the RWE conditions filing of March 31

Kentucky American Water
Employee Indicators
March-04

Employee Indicators

Key **Employee** Indicators

The operating result/FTE for March was \$10,317 compared to a budget of \$12,581. Management fees, depreciation and general taxes expense timing as explained earlier in the report are driving the lower result. The operating result/FTE YTD is \$15,079 versus a budget of \$18,181. See operating result explanation earlier in report. The initial license to manage program has been completed for 53 employees. The Road Show was conducted on March 18 by Bob Ross and the meeting was productive with many questions answered. All employee evaluations were completed in the quarter as planned.

Employees

Provide an update on the Time and Attendance initiative and any improvements made in this area of the business. Discuss staffing and personnel issues, labor relations and employee development.

Risks and Opportunities (see Detailed Summary):

Update on any significant changes to the Risks & Opportunities summary report listed in the prior monthly report. Report on insurance claims and costs compared to the prior period for the Month and YTD with explanations as necessary.

Risk Summary (see Detailed Summary):

Update on any significant changes to the Risk summary report listed in the prior monthly report. Nothing of significance to report. The Company did update its risk assessment plan and provided it to the corporate risk department.

Other Issues (Non Financial Indicators):

Any significant issues that impact the business. Including a section on any issue or event affecting reputation either good or bad and litigation issues as well.