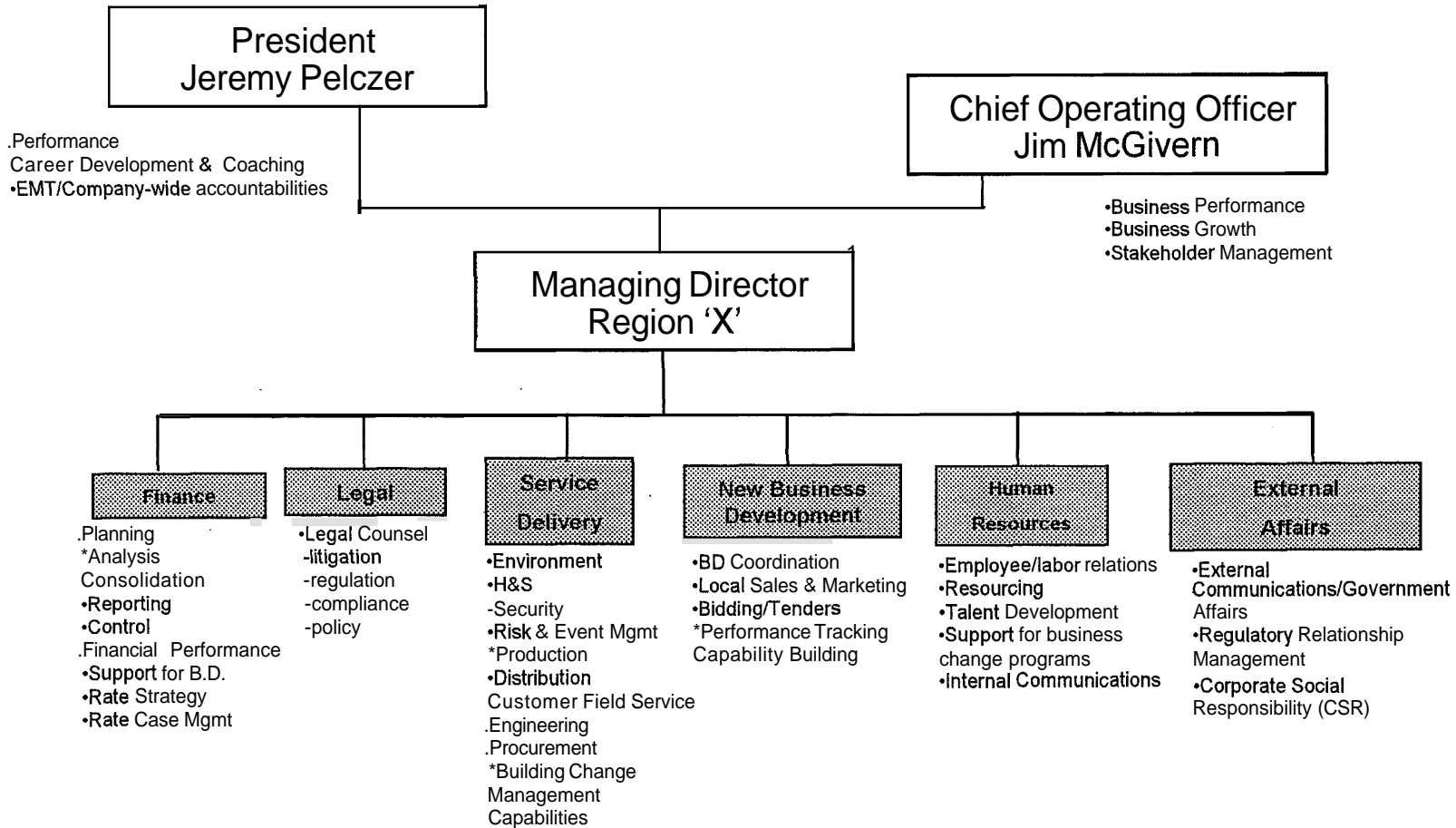


"Strawman" Regional Structure



Roles to be filled in Phase 2



Organization & Selection – Phase 2 Process



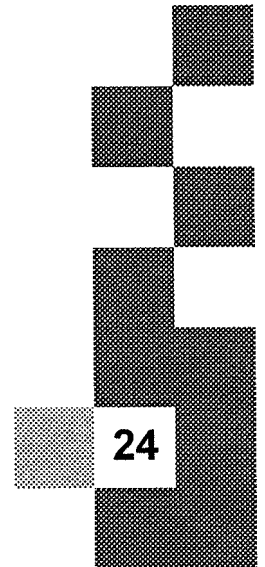
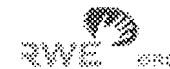
- Phase 2 covers the positions which report to the Executive Management Team and the COO's direct reports
- During the week of 17th November the new Executive Management Team will be finalizing the organization design for their areas of the business and will then confirm which positions will be going through the process
- Positions at this level which are not materially changed will not be included in this phase and their incumbents will not be asked to apply for their own jobs
- The Phase 2 roles will be posted in special Internal Recruitment Bulletins to allow employees to apply for the jobs. These bulletins will be posted from November 24th and the closing date for applications will be December 1st. A paper based 'short listing' will then occur and candidates will proceed to the PDI selection assessments



Organization & Selection – Phase 2 Process



- External consultants, PDI will be used in Phase 2 of the selection process
- The process will be similar to Phase 1, and individuals will participate in 2-hour feedback sessions with PDI
- The majority of assessments will occur between November 24th and December 12, 2003
- The data from Phase 2 assessments will be reviewed by the appropriate “hiring manager” supported by HR and PDI
- Decisions on the majority of Phase 2 appointments will be communicated by the end of the year





Contents

- Context

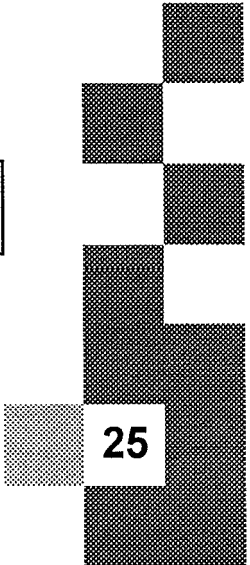
- Vision

- Strategy

- The new Organization and Appointments

• Next Steps

Discussion





Next Steps

- Individuals who currently report to Regional Presidents and Heads of Functions in Voorhees will be advised during the next two weeks whether:
 - Their role is not materially changing and they will continue in their role, or
 - Their role is considered part of Phase 2 and that they will participate in the selection process. Dates, locations and relevant materials will be provided. For incumbents whose jobs have materially changed the selection events will commence from the 24th November onwards
- From November 24th – recruitment bulletin posted
- Close date applications - December 1st
- November 24th to December 12th – Phase 2 assessments occur
- By end of year – formal communication of appointments



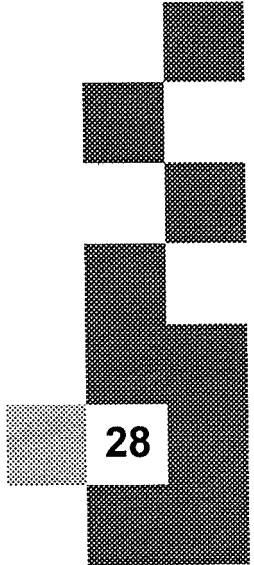
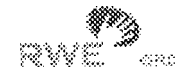


Next Steps - continued

- This timeline is extremely tight so we would appreciate everyone's understanding and flexibility to help us meet these deadlines
- Phase 1 & 2 positions will be appointed by the end of 2003
- We are committed to finalizing the design of the Phase 3 and beyond management structures as quickly as possible in 2004 and to completing the appointment of all management roles by the end of June 2004
- We remain committed to providing ongoing communication to employees on progress with the appointments and the other AW change management initiatives
- These are challenging times and everyone's ongoing commitment and dedication to serving our customers is appreciated



Questions and Answers...



Questions & Answers

1. Q. Why are we making these changes?

A. All of our people are committed and take pride in our business, however, there are a number of compelling reasons for change: the desire to better service the needs of our customers; the need for better quality leadership; the need to be more efficient in order to minimize increases in rates; the desire to ensure that we work smarter and together in teams; to ensure that we provide better feedback and professional development for our employees; and to facilitate better communication between managers and employees. There are also a number of external factors that are creating pressure on the business: the current economic downturn; weather impacts over the last two years; increased operating costs (through increases in insurance, healthcare, security, etc.); and condemnations. The combination of these challenges is significant for the business, but it is within our capabilities to achieve our goals and overcome these challenges.

2. Q. What impact will these changes have to our customers and the communities we serve?

A. We remain absolutely committed to the communities and customers that we currently serve and by being highly efficient and effective, we feel confident that we will meet the needs of our customers going forward and attract new customers. The organizational changes are intended to ensure that we have the best operating practices consistently applied across the Company to enable us to deliver the highest quality service. Changes in personnel at the top of the business will be carefully managed with our external stakeholders to reassure them that there is continuity of service and that the integrity of our operations is enhanced by these changes. We are confident that the new organization and the culture that we are creating will enhance our reputation with our customers and in the community.

3. Q. What do our regulators think of these changes?

A. The senior managers in our respective States are communicating the changes to our regulators and explaining how the new business model works and what benefits will arise across the business over time. Our regulators are responsible for ensuring that our customers receive good quality service at the right price, and the changes that we are making are completely aligned with that objective.

4. Q. How does RWE feel about the changes being made at American Water?

A. The detail of the new Vision, Strategy and Organization has been shared in the last few days with RWE, including the CEO of RWE, Harry Roels. Changes have been given complete support by RWE, and they are confident about our ability to deliver the planned results.

5. Q. How were the decisions made about the new regional structure?

A. The new regions were put together after careful consideration of a number of factors: customer numbers, employee numbers, growth potential, State-by-State culture, location of offices and assets, spans of control (a ratio of managers to direct reports), opportunities for efficiencies and performance improvement, stakeholder management

issues, and employee and organizational capabilities. Following the scrutiny of all of these factors, the existing states and regions were "bundled" together into the new larger four integrated regions. There is a now a better balance between the three large mature regions with the Western Region being a major source of potential growth. The regional structure is more streamlined and easier to manage than the old structure, which had seven regulated regions and five unregulated regions.

6. Q. What happens to the previous Regional Presidents now?

A. Each of the previous Regional Presidents continues to have a valued role to play in ensuring continuity of service, effective stakeholder management, and orderly transition into the new organization structure. As the new Regional Managing Director's commence their organization design and the selection of their new teams, the previous Presidents will be part of that design process and will be important players in ensuring business continuity.

7. Q. What do these changes mean for our Chile business?

A. The Chile business under Eduardo Verdugo as Managing Director, and Greg Holland as Chief Operating Officer, will continue to report directly into the AW President and will also report to the COO on performance and growth matters. The changes and initiatives that are occurring across American Water are unlikely to have a significant impact on our Chile business as Chile has already undertaken its own business integration and reorganization and has embarked upon a culture change program.

8. Q. What do these changes mean for the Products and Services companies (AWS, etc.)

A. 2004 is a big year for the Products and Services companies, both in terms of meeting their challenging business plan and also in terms of the need for them to accelerate our business growth. Walter Lynch will continue to lead the Products and Services management team and while delivering his performance and growth goals for 2004, will also be heavily involved with the new business change team in the transition of the contract O&M business and military contracts which have commenced operations into the new regional structure. This transition needs to be managed sensitively and carefully, and will take many months to be completed. Our other non-regulated business lines will continue to be separately managed on a national basis by Walter and his team.

9. Q. What does this mean for our New Jersey business?

A. New Jersey-American and Elizabethtown Water are currently going through a separate integration process. It will continue to manage its reorganization and selection process as planned and communicated to employees.

10. Q. What is the purpose of each of the new roles in the organization?

A. A brief description of each new role is provided below:

Managing Director:

- To establish, meet and/or exceed business plan commitments for the regulated and non-regulated business in the assigned region and ensure company wide business strategy for performance and growth is achieved.
- To oversee the complete range of stakeholders in the assigned region in order to promote achievement of business goals while ensuring operational integrity (environment, H&S, etc.) and developing employees.
- To deliver high quality customer service.

Business Change Program:

- Drive the effective delivery of AW's business plan performance through the strategic coordination and program management of the multiple change initiatives across the business
- Ensure alignment of key change projects with the vision, strategy, business goals and business plan

New Business Development:

- To build and to enhance the capability of the Americas Region business development function providing functional leadership, strategy, vision and direction to ensure the acceleration of profitable business growth.

Customer & Shared Business Services:

- Drive service improvements and process efficiencies within centralized services: Customer, Shared Sgrvices, Laboratories, IT Services, and Procurement.

Operations & Investment Performance:

- To define and implement 'best operating practices' throughout the businesses and drive the delivery of cost effective capital investment programs

Regulatory & Contract Performance:

- To define and coordinate implementation of rate case strategy.
- To optimize contract performance and steward commercial elements of new business.

11-Q. Why are there two Business Change Managers and what are they doing?

A. Nick Rowe and Opiuyo Oforiokumah have been appointed to the position as joint Business Change Managers because they have complementary skills and experience. Nick Rowe has experience of managing operations within our regulated environment and has excellent relationships across the business, while Opiuyo Oforiokumah has significant experience in managing change programs within our businesses in Chile and while in 'Thames Water' International business. Their different strengths and perspectives are an excellent combination and will enable us to ensure that the Business Change Program is aligned with our strategic goals, implemented within our timeframes and financial parameters, effectively coordinated and communicated, and successfully integrates all of the different change initiatives that are occurring within the regional businesses and in the various functions. The role is of critical importance and both Nick and Opiuyo report directly to the President.

12. Q. What's different about the new strategy?

A. Firstly, we will significantly grow our presence in the market for wastewater services, which offers attractive opportunities. Secondly, we will increase our presence in the growing markets in the South and the West in order to obtain a portfolio, which is more regionally balanced. Thirdly, American Water will become the preferred partner for municipalities in solving their water and wastewater problems. These main elements will be supplemented by a range of new technical offers, that will enable us to address the water supply and in water and wastewater infrastructure: desalination and reuse.

13. Will we continue our growth in the water market in our traditional regions?

A. Yes, but we will increase our focus on the South and West in order to balance our regional portfolio. We will also shift the emphasis to wastewater in order to balance the decrease in attractive water opportunities in areas where we have already achieved a significant market position. Our traditionally strong markets in the Northeast will continue to be a priority.

14. Why is wastewater attractive?

A. In our existing footprint municipalities are facing increasing needs to upgrade and refurbish their wastewater systems. As state funding will be less available they are likely to be increasingly receptive to the private sector and American Water, having proven its expertise and reliability in operating water systems, will also seek to offer wastewater services. This will enable us to realize operational synergies in areas where we already operate the water system. American Water also has an offer, which has already proven successful in some states for decentralized, on-site wastewater systems. These are needed in the growing number of new residential and commercial developments beyond the reach of centralized wastewater systems.

15. What are the benefits of RWE's ownership for our business?

A. The business for the American market is developed and managed in the US. However, being part of the RWE Thames Water group gives us unique advantages in delivering our strategy. Thames Water has always been active both in water and wastewater and as such has enormous expertise in the latter. This will enable us to transfer this wastewater knowledge from the UK to the USA. With PRIDES A one of our European businesses, with expertise in desalination we are in an excellent position to capture the opportunities in this growing market in the US's arid regions. RWE's financial strength provides us with access to capital to invest in the business. We also benefit from joint training and development and RWE's talent pool.

16. Q. Why do we need a Vision statement?

A key reason for having one is that employees have asked for clarity about the Company's vision. A Vision statement is a simple way of providing clarity to employees, customers, regulators and other key stakeholders about what kind of business we are and what we stand for. It sets out a realistic ambition of what kind of organization we want American Water to be and should enable us to consistently

reflect on our activities, and our strategic plans to ensure that they are aligned with this new Vision for the business.

17. Q. What's happening with the other parts of the "building blocks" that were described in the first "Shaping our Future" communication?

A. We will take each of the building blocks in turn and provide you with an update on progress:

Culture

- **Communication:** We have created a new function of External Affairs, which is led by Dan Kelleher. Dan is developing plans to create improved internal communication infrastructure, for example creating feedback channels for employees and improved training and development for managers to ensure that they can deliver key messages to employees at the right time in the right way. Hopefully, the series of communications that began with the "Shaping our Future" has set a new style, tone, and standard for communication across the business.
- **Employee Satisfaction:** The Employee Opinion Survey action plans that have been developed in each of the businesses will be included in the monthly and quarterly business review process that the COO chairs. Each senior manager and head of the Region will be measured on a number of the categories in the Employee Opinion Survey through the balanced scorecard. During the course of 2004, we will resurvey the business to measure the progress we have made in each of the categories.
- **Training and Development:** Review of the training and development programs is underway with review to implementing revised training and development during 2004.
- **Labor Relations:** Significant investment has been made in improving the quality of relationships with unions at the local and national level. The philosophy for labor relations is built around the notion that unionized employees and union leaders are key stakeholders in our business and deserve the same respect as other stakeholders. We are seeking to "partner" with our unions to help us address our key business challenges in the next few months.
- **Diversity:** The current selection process has enabled us to understand the strengths and the relevant needs of our senior management pool, and we are taking a long hard look at the diversity of that group. During the course of 2004, we will be proactively addressing some of the diversity needs that we face as a business.

Strategy/Organization:

- The strategy for American Water has been developed and approved by the Executive Management Team (EMT) and has been communicated this week.
- **Vision Statement:** The Vision Statement has been consulted on widely within the business and an amended version has been validated and signed off by the EMT. This has been issued this week to employees
- **Organization Design:** The first key steps of the organization design, including the development of the new business model and the new top structure has been

- concluded and selection and appointment decisions have been made. This process will continue now and cascade through the organization.
- Divestments: We continue to analyze the shape and content of our business portfolio. The new business strategy, enables us to undertake a rigorous assessment process of every business' strategic fit as well as its performance and the value that it creates. This is an on-going piece of work.

Performance

- Business Process Improvement: The "blueprinting" of the business processes is ongoing and the "as-is" process blueprinting has largely been completed. The next step is to bring together teams of individuals to create the "to-be" process maps for the business. These will then be carefully implemented across the business and this will be coordinated through the new Business Change team.
- Technology and Systems Improvements: The successful completion of the business process mapping and blueprinting will enable the decisions around supporting business systems to be made. This will happen during the early part of 2004.
- Efficient ways of working: There are a number of initiatives that are currently underway across the business, which are driving efficiencies and productivity gains. These will be communicated in a separate "Shaping our Future" communication pack in the coming weeks.
- Performance Management: There are number of initiatives that are underway to improve the way in which we set goals, align our activities, measure our performance, and recognize successful performance. These include the new target-setting process for senior executives, the balanced scorecard, and the development of a new performance management system, which includes a 360° review element. As this work further develops, there will be more communication of how these performance management tools fit together and what impact they will have on each of us in the business

Growing the Business

- Strategy Alignment: The conclusion of the business strategy enables all of our business development plans to be reviewed and realigned with the new strategy. This should help us to focus on the most value adding products and services that we can offer our customers, and should eliminate the pursuit of new business that does not provide the required level of value to the business.
- Training and Development: There is a major initiative underway to develop the tools for business developers and to support them in winning the right kind of sustainable, profitable business as we go forward. These new tools and techniques will become available to business developers in early 2004.
- Performance Management: Business developers will utilize the performance management tool that aligns their plans and objectives and monitors their progress in a more comprehensive way. The new performance management tool for business development will be implemented early in 2004.

- Expanding Business Lines: Progress is being made in the development of two strategic business lines for American Water. Firstly, our wastewater offering to the municipal market and to existing customers, and secondly, our use of the desalination capabilities and that are provided by PRIDESA, a sister company within RWE/Thames Water Europe Region.

18. Q. Four new Regions and Regional Managing Directors have been announced. What roles will Chris Jarrett, John Eckart and Eric Thornburg have in the organization? Will they continue to be presidents of the states they are now representing?

A. Chris, John and Eric continue to be valued members of our organization. Each of them has been encouraged to consider roles in the organization as additional levels of our structure are announced. In the meantime they will remain in their current roles to ensure continuity of service and maintain key stakeholder relationships

19. Q. Why is Ellen Wolf, CFO, leaving the business now?

A. Ellen Wolf has chosen to leave the business at this time to pursue alternative opportunities elsewhere. Having steered the finance function during the last few years, and being a key player in the sale of American Water Works to RWE/Thames Water, Ellen has deemed it an appropriate time to move on to fresh challenges. We have also taken the opportunity to reconfigure the senior finance role in the America's Region so that it is consistent with the most senior finance manager roles within RWE/Thames and across the Water Division worldwide. We wish Ellen every future success in her career.

20. Q. Who does the head of American Water Services report to?

A. Walter Lynch continues to lead our non-regulated businesses, Products and Services, and to report to the COO, Jim McGivern.

21. Q. Will the five regions of American Water Services become part of the American Water regions? If so when will that occur?

A. AWS has recently gone through its own organizational review and the regional structure is being changed to focus on each of its separate lines of business, e.g., O&M, Military, Residuals, etc.) in order to meet their plans. The O&M and utility contracts business will transition into the new Region to create a more integrated business by 2005.

22. Q. Will the Managing Directors of the new regions keep their same staff or will they create new positions and who is eligible for those jobs?

A. The new Managing Directors will be developing their own structures and selecting future senior teams. A "Strawman" structure has been developed (page 22 in the slide pack) for the regions and this will be the starting point for the Regional MDs. The new jobs will be posted and suitably qualified individuals will be able to apply for them. Short listed candidates will go through the PDI assessment process.

23. Q. Will the Managing Directors of the new regions continue to manage or be presidents of the subsidiaries they came from?

A. The primary job for the new Regional MDs is to provide the leadership and drive to the whole of the new region, ensuring we deliver on performance and growth targets, and build the right culture. However, each of the new Regional MDs has strong relationships with their existing regulators and stakeholders and we need to continue to capitalize on these. We do not intend to add layers of management to the business so we will be asking the Regional MD's to "double up" in their roles.

24. Q. Where will the new Regional headquarters be based?

A. For the foreseeable future, the Regional Head officers will be based in San Diego, St. Louis, Hershey and Lawrenceville. Each of the new Regional MDs has an action to confirm the long-term location of the headquarters. This will involve analysis of factors such as: location of buildings and people; cost; travel time; location of stakeholders, etc. The MDs will be making their decisions quickly to enable the phase 2 and 3 process to be clearer for employees.

25. Q. How many top management layoffs have there been and will there be more?

A. Thirty of our senior executives went through the selection process for our top ten jobs. We have communicated to each of them the decisions that we have made, and have discussed feedback from the assessment process with each of them. Development plans are being put in place to support their development, both for those that have been appointed and for those who were not successful in this phase of the process and who remain in the business. Those who are unsuccessful are being invited to participate in the next phase of the selection process, where further senior jobs will be vacant in the coming weeks. We do not anticipate lay-offs occurring until the second phase of the selection process has been completed, where our executive management group has been reviewed and appointed.

26. Q. When will I know if my job has changed?

A. The Regional Managing Directors and the new Functional Heads in the center of the business are working on their new structures and defining the roles that they require to take the business forward in the next few days. November 26th, a special internal recruitment bulletin will be published that provides details of all of the vacant positions so that potential candidates from across the business can apply to be considered. In advance of that notification occurring, individuals whose jobs have changed, and individuals whose positions have not changed, will be advised by their manager. Those whose jobs are changing will be asked to go through the selection process.

27. Q. When will I know if I have to apply for a job?

A. Individuals who are in the next layer of the organization below the President and the Chief Operating Officer's direct reports will know if they have to apply for a job by the 26th of November at the latest.

28. Q. Who or what is PDI?

A. PDI (Personnel Decisions International) is an independent firm of consultants that specialize in leadership development and assessment. They have a database of over ten thousand assessments which they use as benchmarks to rate individual capabilities. They are highly respected around the world for the quality of their work.

29. Q. Why and how were PDI chosen?

A. PDI were chosen to enable us to have an independent, third party assess our leadership talent pool, to provide us with objective data on their skills, experience and fit for specific roles. PDI were chosen because of their professional qualifications and were the best of the four companies that we invited to submit tenders for and this work. Feedback from the candidates going through phase I has been that PDI have managed the process professionally and sensitively.

30. Q. The Employee Opinion Survey indicated that employees are highly skeptical about the selection decisions that have typically been made in the past for management positions. There is a low score for "appointments being made based on merit". What's different this time?

A. This selection process is different because we are using an external provider to benchmark candidates and provide objective data. Although we will be using our judgment about the suitability of candidates for posts and will take account of individuals' track records within the Company, we feel that this internal data has some limitations. The PDI process is also enabling us to put together personal and professional development plans for the individuals which help us further develop our leadership talent.

31. Q. Who makes the decision about appointments?

A. The decisions in phase 1 were made by the two "hiring managers", Jeremy Pelczer as President, and Jim McGivern as Chief Operating Officer, for their respective direct reports. Those positions were discussed at length in a review meeting made up of Jeremy Pelczer, Jim McGivern, Dietrich Firmhaber, Dan Kelleher, and Matt Huckin with support from PDI. In phase 2, the hiring managers who will be making decisions about selections, will be the individuals who report to Jeremy Pelczer and Jim McGivern. Hiring decisions will be approved by the President before they are communicated to individuals and the business as a whole.

32. Q. Will Thames Water and RWE employees have the opportunity to be considered for the roles in the AW structure?

A. The special recruitment bulletin will be circulated amongst Thames Water and RWE, to see if there are any suitable candidates for the roles. However, American Water employees will have priority for the vacant positions and it is likely that only a small number at most of non-AW managers will be seriously considered for roles in the new structure.

33. Q. Will American Water employees have the opportunity to be considered for roles in other parts of Thames Water and RWE?

A. There are occasionally opportunities for American Water employees and where these arise, they will be communicated through the normal posting process. American Water employees are encouraged to apply for the roles outside of the USA when they are a good match for the specific vacancies. RWE is eager to encourage "internationalization" and mobility of talented individuals across the system.

34. Q. How can we keep focused on delivering results while this selection process is going on?

A. We appreciate that this process is difficult for individuals and may create some additional anxiety. However, we feel it is essential that we deliver on our goal of getting the right people in the right place at the right time to enable the business to really progress. We are confident that employees at every level in the business are highly committed to delivering service to our customers, and that we will maintain consistently high levels of performance as the process unfolds.

35. Q. What happens if my job is materially changed, but I am not willing to undertake another role?'

We will be reviewing each individual circumstance on its own merit and making decisions, which are fair, consistent, and in the best interest of both the business and the employee. Should an individual be unwilling to participate in the selection process, or does not wish to be considered for a changed or new job in the new structure, then they should discuss this with their Line Manager and their HR Manager.

36. Q. What happens if I end up without a job?

A. If through the selection process you end up without a job, we will attempt to redeploy you into an alternative role and you will have the opportunity to be considered for roles at the next level in phase 3.

37. Q. If I am laid off, what terms will I leave the business on?

A. The severance terms that will be used are the "enhanced severance" terms that we have used in recent lay-offs arising from organization changes (i.e. the move of customer service jobs to the Customer Center).

38. Q. If I am appointed to a position within phase 1 or phase 2, what will happen to my pay, incentives, targets and objectives, job title, etc?'

A. All of these matters will be resolved within the near future. As jobs are changing we need to take a view on the size of the job and the market price for that job and then advise individuals of the implications of the change for them. Incentives, targets and objectives will be set and will be agreed with line managers to commence the 2004-year. In the interim, there will be no changes to individuals' pay, grade or status, and obviously each situation will be reviewed on an individual basis.

39. Q. Will the "no detriment" promises be honored?

A. Yes. The Company will maintain its commitments under the RWE/Thames Water sale agreement.

40. Q. How will these changes affect commitments made during the regulatory approval process?

A. The Company remains fully committed to meeting all promises made during the regulatory approval process. In fact, the changes being announced are the start of a business transition intended to further expand our commitments to maintain local decision-making, implement best practices and continue investing in infrastructure.

41. Q. Today's announcement confirms only the top level of the organization structure. What about the rest? When will it be announced?

A. Over the next several days the newly appointed Regional MDs and functional heads will work to define the structure of the next level, and the design will be communicated before the end of the year.

42. Q. Will there be a "Phase 3" process?

A. Yes, there will be a phase 3 process once the phase 2 appointments have been completed. It is anticipated that this will occur during January and February 2004, and it will obviously affect the layer below the phase 2 level of management.

43. Q. How will I find out about the phase 3 process and what it means for me?

A. The phase 3 process will be managed in a similar way to phase 2 with an open communication and individuals' issues being sensitively managed by Line Managers. The process will be fair, open and objective, and we are committed to managing it with in as short a timeframe as is possible.

44. Q. Do our Unions know what is going on?

A. We have briefed our union leadership at the national level with regard to these changes. Relevant line managers will be undertaking communication meetings with union leadership in their local areas in the coming days, and union employees will obviously be attending other team briefings in the normal way. We have spent a significant amount of time and energy in communicating the changes, the rationale behind them, and the implications of these changes for employees across the business, and we feel that the unions understand the need for change. We will continue to commit ourselves to working in partnership with our unions who are key stakeholders in the business as the process continues through the organization.

45. Q. How many positions will be involved in Phase 2?

A. The precise number is not yet determined, but it is likely that about 30 positions will be sufficiently different or completely new and will therefore need to be filled.

46. Q. How many positions are expected to be eliminated as a result of the first two Phases of the restructuring?

A. The exact number will not be known until the Regional MDs and functional heads have completed their organization design work and the selection process in phase 2.

47. Q. When will the changes be effective? Are the four regions effective as of today? Do the other presidents now report to the managing directors of the new regions?

A. The changes are effective from today. All employees within each of the new regions, including the existing presidents, will report to the new Regional Manager Director.

48. Q. When will the reorganization process be completed?

A. We anticipate completing the management layers by the middle of **2004** at the latest. The quicker we can complete the process the faster we will be able to focus the new management team on delivering the results.

49. Q. Which level of jobs is included in the next set of selection events, i.e. the so-called phase 2?

A. The phase 1 process covered all of the direct reports to the President, Jeremy Pelzer, and the direct reports to the Chief Operating Officer, Jim McGivern. In phase 2, it is the direct reports of the top team that have been announced on the 19th of November that will be included in the selection process.

50. Q. How can I raise my questions and get answers in confidence?

A. We encourage you to raise any questions that you have with your immediate supervisor and/or your communication manager or HR advisor in your business unit. You can also raise questions directly with the corporate team managing the change process via email to shapingourfuture@amwater.com. Questions/comments will be addressed individually or in future communication material. Your contribution to this process is very welcome and please feel free to raise any questions that you might have.

51. Q. What is happening with the Business Development function?

A. The Business Development role at the center is changing to a coordinating and enabling function with bids and new projects being delivered within the regional businesses. Each region will have a lead business developer reporting to the Regional Managing Director, and with a dotted line functional relationship to the new head of business development in Voorhees, Bill Malarkey. The new regional business development roles are different to those at present, given the greater geographic and integrated regulated and non-regulated breadth. The phase two process will ensure we select the best-fit candidate for these key regional roles to complement Bill Malarkey's appointment in the central role. Significant investment will be made in **2004** to build the capabilities and support the performance of our Business Development teams.

52. Q. How will we know when the new organization is successful?

We will know if we have been successful when we have measured the organization internally, via the Employee Opinion Survey, and demonstrated that employees are:

- Aligned with our vision and strategy
- Seeing the values being demonstrated by everyone
- Confident about their future in the business
- Developing new skills and getting good quality feedback
- Fully informed about the business and our progress and having opportunities to have their voices heard
- Benefiting From the success of the business and seeing our business grow
- Receiving the quality of leadership they deserve
- Proud to be part of American Water and providing excellent customer service

Our customers and external stakeholders will know the new organization has been a success when:

- Consistently high levels of service are provided
- The services represent excellent value for money
- American Water is a role model for corporate social responsibility and business ethics
- Innovative solutions are provided to meet their needs
- We demonstrate our respect for them and the environment in which we operate.

Memo

To	All American Water Employees	From	Jeremy Pelczer
Date	2003-12-22	Phone	856.346.8302
Subject	Organization – Restructuring Phase Two	Fax	856.346.8300

Dear Colleague,

In my November 19th 'Shaping Our Future' communication, I committed to announce the second phase of our restructuring and the individuals appointed to fill those positions before the end of the year. I am pleased to make those announcements today.

In the past four weeks we have confirmed and advertised roles and responsibilities for Phase 2 positions. As in the first phase, we were supported by our external consultant, PDI, who conducted objective assessments using leading business standards and benchmarks. Much has been accomplished in a short period of time, and I want to thank all involved for their patience, flexibility and support.

Key roles we are announcing today are as follows:

- ❖ Senior manager positions to support each of the four U.S. Regional Managing Directors. The positions will be responsible for Service Delivery, External Affairs, Business Development, Legal, Human Resources and Finance. The principle focus of this team will be to serve our customers and grow the business.
- ❖ Senior manager positions reporting to functional leads in the Corporate Center, and who will be responsible for supporting Human Resources, External Affairs, Operational & Investment Performance, Procurement, Business Change and Regulatory & Contract Performance. The principle focus of this team will be to serve and enable the regions.

Positions and responsibilities that are being announced today are intended to support our vision and strategy. Many are new positions in responsibility and/or scope. They will all help us become a more customer responsive, high performance company; accelerate our growth; improve our effectiveness and efficiency and achieve our full potential. All of the individuals who have been through the selection process have been given feedback and are aware of the outcome.

With the holidays upon us, and many employees taking vacations, we have scheduled our communications meetings starting the second week of January. At that time your manager will present the structure and appointments to you. In mid-January we will also announce details of the next phase of our organization restructuring.

To support this announcement, I have enclosed a Q & A document, which is intended to answer some of the most frequently asked questions. In the meantime,

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Memo

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if you have any questions, I encourage you to raise them with your Line Manager, Communication Manager, or Human Resource Manager. You may also submit your questions and any feedback you may have to our email site, shapingourfuture@amwater.com, and your question will be promptly addressed.

I am aware of the anxiety that many of you have been feeling over the past several weeks. That is why I wanted to make these announcements as soon as possible. I also remain committed to ensure the next steps are conducted in the same open, objective and fair manner that we have used in the first two phases, and that it be completed as soon as possible without compromising the quality of the process.

I would like to take this opportunity to congratulate all those who have been appointed to new positions and to wish them every success in their new roles.

As we conclude our first year as part of the RWE Group, I want to express how proud I am of the work you do each day, and how you have worked to overcome the many challenges we have faced this year. I remain confident of our ability to achieve our goals in 2004. Thank you for the results you have produced, and for your ongoing commitment and support.

Yours sincerely,

Jeremy Pelczer
President
American Water

1) Q: When will the positions announced today take effect?

A: The positions announced today will be effective as of January 1, 2004.

2) Q: When will employees learn what compensation levels are associated with the new positions being filled?

A: We expect to be able to communicate compensation for each position during January. As in the past, the process being used to establish position compensation ranges is to benchmark against positions in other organizations, which have comparable roles, responsibilities and accountabilities.

3) Q: Today's announcement covers Phase 2 of the restructuring process. How many phases will there be?

A: Now that the Phase 2 appointments have been made, those individuals, along with the leadership appointed in Phase 1, will finalize the next level of the new organization structure. We anticipate a Phase 3 process to begin mid- January and continue through February 2004. The Phase 3 process will be managed in a similar way to Phase 2, with open communication and an opportunity for employees to apply for Phase 3 positions. The process will also continue to emphasize selections based on merit, considering both assessment results and performance in previous positions. At this time we anticipate there will be a 4th phase of the process. We anticipate completing the management restructuring by the middle of 2004, at the latest.

4) Q: The Company has expressed a commitment to diversity. How is that commitment being reflected in the restructuring process?

A: Diversity remains an important Company focus. You can be assured that all position appointments are based on merit. As we have progressed through Phase 1 and 2 of the process, we have encouraged all employees to carefully review and consider each of the roles. The process has then focused on results of the PDI assessments combined with each individual's past performance and accomplishments. We remain committed to diversity because it is the right thing to do. Diverse management teams are also able to be more reflective, and make better decisions.

5) Q: If an employee applies for and is appointed to a position that requires relocation, will there be relocation assistance provided?

A: Yes. The Company's existing relocation program will be offered to employees as appropriate to the position being offered. Details concerning the specific level of relocation package will be provided at the time of the appointment offer. Your local HR Manager can provide you with details of the policy.

6) Q: Is it possible to get a copy of the enhanced severance package guidelines that were referenced in the earlier communication?

A: Yes. The enhanced severance package is the same package that was offered to employees who were affected by the consolidation of our Call Center and Shared Service Center operations. Your local Human Resources manager will be able to share the contents of the package with you.

7) Q: On what basis are the decisions being made about whether an employee appointed to a new position will need to relocate to a different office or operations center?

A: Those decisions are being made by the hiring manager in consultation with other members of the management team. Some of the considerations involve the dynamics of the region, the nature of the role, as well as the business environment that prevails in a particular location.

8) Q: What happens if a position is not able to be filled from within the organization?

A: If a suitable candidate for a position is not found from within the organization, a recruiting process will be initiated to select a qualified candidate from outside the organization. There are some positions in Phase 2 that we will be filling with external hires.

9) Q: Why are these announcements being made so close to the holidays?

A: What we have heard from our employee surveys and from employee input over the last several months is that there is recognition of the need for change. At the same time, there are a number of initiatives that began earlier in the year that individually involve organizational change. The Executive Management Team decided that it was preferable to move forward with the organization restructuring in a way that respects the interest of our employees. There is no best solution to organizational change. Anxiety is created when people expect change, just as anxiety is created when change is occurring. We are doing everything possible to keep employees well informed. We will continue to move the process along quickly to allow all of our employees to plan their future.

10) Q: If a position needs to be filled from outside the organization, will candidates be subjected to the same sort of assessment process used for internal applicants?

A: Yes. We are committed to selecting the right people for the right positions. The assessment approach for each position will include the same rigor for internal and external candidates.

11) Q: Will the assessment process for future phases be the same as used in Phase 2?

A: Not necessarily. We are working with PDI to determine the approach we will use for future phases. Details of the process to be used will be included in our communication in January.

12) Q: Why were certain positions in the announcement not filled?

A: Decisions being made in each phase of the process involved selecting individuals who are best suited for each position. In some circumstances, despite having capable employees who applied for a position, no candidate was determined to have the right skills and/or abilities to carry out the newly defined role. That is not to say the employees who applied for consideration are not capable individuals, rather, it is to say that the new roles and responsibilities are very different than those of positions the Company has had in place.

13) Q: What happens to me if I have been considered for a position but not appointed?

A: Employees have an opportunity to consider positions in the next phase of the process. If, as a result of future restructuring, an employee is not confirmed in a continuing or new role, we will work with the employee to explain our outplacement and severance plans, which will assist the employee to transition to other employment

14) Q: If a position is required to be posted and an incumbent of a position being eliminated chooses not to apply, will they be severed, or how will that be handled?

A: It is important for each employee to consider his or her personal goals and objectives as we progress through this process. It is not possible to guarantee that each position currently in place will continue as part of the new structure. For that reason, we encourage each employee to carefully consider opportunities that may exist as each phase of the process progresses. Each employee should review positions as they are posted and make an informed decision of whether any of those positions are of potential career interest. If, having made those decisions, an employee is not appointed to a new position, and their existing position is eliminated, they will be eligible for the provisions of our enhanced severance program, or may wish to be considered for appointment elsewhere in the business in the next phase.

15) Q: Some of the positions in the announcement indicate "tbd", and others indicate "external hire". What is the difference, and why are the positions not filled from within the organization?

A: From the outset we have intended this process would result in appointment of the best candidate for each new position. Many of the new positions are very different from those we now have, so it is not surprising that we might have a few positions for which qualified internal candidates are not available. Positions that reflect "tbd" in today's communication indicate a possible internal candidate is available. However, individuals identified for the role were not able to be confirmed due to personal or business reasons. In certain instances, a potential internal candidate may not have been assessed. In that instance, a second posting will occur to enable additional internal candidates to go through the assessments. Where "external hire" is mentioned, we did not find the best candidate internally, and do not believe we have an

appropriate candidate internally. In such cases, we will recruit from outside the organization.

16) Q: What will be the process for re-posting of positions where appointments have not yet been made?

A: Positions that need to be re-posted will be done early in January. That will allow us to learn as early as possible whether there is a qualified candidate within the organization. After re-posting, if no qualified internal candidate emerges, we will recruit externally.

17) Q: If an external recruitment takes place, will prospective candidates be assessed by PDI?

A: Yes. No one will be appointed to a newly defined position unless they have been assessed by PDI. Also, the same assessment process used for internal candidates will be used for external candidates.

18) Q: If an employee has been assessed during the first two phases, will it be necessary to be assessed again?

A: No. Any employee who has participated in a Phase 1 or Phase 2 assessment will not be required to be assessed to be considered for a position in a future phase. However, consideration for a position can only occur if the employee formally responds to the posting process.

19) Q: I have heard employees in New Jersey were not required to go through the assessment process. If that is true, why was that decision made?

A: The New Jersey businesses began an assessment process independently earlier this year as part of the integration of Elizabethtown Water, Mt. Holly Water and New Jersey American. The process included a professional assessment by an independent consultant other than PDI. Because that process had only recently been conducted, it was not necessary to have the New Jersey positions included in the assessment. Certain Northeast Region positions were included in our Phase 2 process, and some Northeast Region employees participated in the PDI assessments as a result of the interest in certain posted positions elsewhere in the organization.

20) Q: It is **difficult** to know what the rest of the organization structure will look like. What advice can you give employees concerning whether they should or should not apply to be considered for the positions that will be posted in January.

A: The organization design is being developed in a step-by-step process involving each subsequent level of positions. Therefore, the next level of the organization (Phase 3) will be finalized with assistance from the Phase 2 appointments. The best advice is to evaluate the roles, responsibilities, and position requirements of each posted position. If you meet the qualifications for the position, are capable of fulfilling the duties; committed to delivering the accountabilities; comfortable that it is a good fit

for you individually; and willing to relocate if necessary, then you should apply for the position.

21) Q: Below the Phase 2 positions, will the organization structure remain as it is today?

A: That is unlikely. Because of the step-by-step process being used to design the organization structure, it has not been possible to finalize all levels of the structure. Now that most Phase 2 appointments have been made, we will proceed to confirm the design of subsequent levels of the organization and communicate them. In the meantime, we would encourage you to evaluate the positions as they are posted and determine whether any of those positions are ones you would be suited for. If not, please continue to focus on the business at hand. We understand that this may be an anxious time but we ask that you have patience while we continue this important process of shaping our future.

22) Q: If I haven't applied for a Phase 1 or Phase 2 position, will I be at a disadvantage when Phase 3 positions are posted?

A: You will not be disadvantaged if you decided not to apply for a Phase 1 or 2 role. It is important that you apply for positions that you believe are a good match to your skills and experience, and that you really want, rather than apply for a position because you feel obliged to. We cannot guarantee the positions in Phase 3 will be unchanged by the restructuring and there will likely be competition for each position. If you are in doubt about the steps you should take, talk to your Manager or HR representative.

23) Q: Have there already been lay-offs or staff reductions in some areas of the business?

A: Changes are occurring in all areas of our organization. In a few areas, such as New Jersey and some of our Products and Services businesses, changes have dictated that positions be eliminated during 2003. However, in those situations, and in the restructuring overall, we remain committed to meeting the spirit of no lay-offs prior to March 31, 2004. In circumstances where it was appropriate to eliminate positions sooner than March 2004, the individuals affected who did not obtain employment elsewhere have been compensated through March 2004 as part of a severance package. That approach is consistent with our intention to treat every employee with dignity and respect, including allowing employees to be able to plan their future to best meet their personal needs.

24) Q: Why would the Company consider filling any of these positions from outside of the organization if there are existing employees who might lose their jobs?

A: Our approach to this restructuring process has been to actively solicit the interest of any employee who feels that he or she is interested in and capable of fulfilling the responsibilities of each of the positions, which are part of our new structure. We know we have very knowledgeable and committed employees. At the same time, as we are designing a new structure, it has been necessary to redefine and reshape a number of positions. Many of the new positions require skills and abilities different from those of the past. We are committed to selecting the right candidates for the right positions,

which means that in some cases, we may not find suitable candidates from within our existing talent pool. It is in those limited circumstances that we will look outside the organization. We will take that step only after we are convinced there is not a suitable candidate within the organization who is interested in and capable of filling the position.

25) Q: How many employees are expected to be laid off in this restructuring?

A: It is not possible at this time to specifically determine the number of positions that may be reduced. It is also important to note that every position reduction will not involve a lay off. Our business experiences normal attrition of about 3%. By carefully planning our restructuring and business change initiatives, we hope to minimize the number of people who will be laid off. In evaluating ourselves against various industry benchmarks, there are indications that it may be possible to meet our obligations and provide the high-level of service desired with at least 5% fewer positions. It is important, however, to recognize that those broad figures are only related to general benchmarking. We have a very large and diverse business and there is much work going on to assess how each business unit might be able to better use technology to improve the efficiency and effectiveness of work and to provide a higher level of service than is possible today. Whatever decisions we make over the next several months will be the result of a very deliberative and disciplined process to ensure the decisions we make will enable us to maintain high levels of customer service as well as operational reliability and integrity.

26) Q: Will all managers throughout the organization be required to interview for their jobs?

A: The only positions that employees will need to interview for are those positions that have significantly changed roles, responsibilities and/or scope. We do not expect all management positions will be changed. However, at this time it is not possible to be specific about which positions will be included in future assessment processes and which will not. The approach we are taking in the design of the new organization structure is to engage each level that is appointed in the organizational design process. Having announced the Phase 2 appointments today, we will be finalizing the next levels of the organization. It is our intent to complete this process as quickly as possible, while ensuring the process is fair, equitable, open and objective. We anticipate the management restructuring to be completed by the middle of 2004.

27) Q: Will employees be able to apply for more than one position?

A: Yes. As each position is advertised, there will be attendant position requirements and responsibilities. Any employee who meets those requirements and is interested in and capable of fulfilling the responsibilities, including relocation if necessary, is encouraged to apply for consideration.

28) Q: Will non-management employees have the opportunity to apply for supervisory or management positions?

A: Any employee who feels they meet the qualifications of the position that is advertised, and are willing to fulfill the responsibilities may apply for the position.

29) Q: What is the extent of the next phase of the restructuring?

A: We will not have confirmation of the next level of the organization until the appointments made in Phase 2 are able to review their organizational needs. We plan to communicate specific information regarding the next Phase by the middle of January.

30) Q: Will positions other than management or supervisory positions be affected by the restructuring?

A: It is likely that changes occurring in the management structure will impact support positions. In addition, business process improvements will likely impact some positions. We are not able to guarantee any employee there will be no change. However, we are committed to making the changes in our organization in a fair, open, and objective manner within the shortest time frame possible.

31) Q: Why were the Human Resources positions not posted along with other positions at the beginning of the Phase 2 process?

A: In order to begin the Phase 2 process without undue delay, the Human Resources positions were communicated directly with our incumbent Human Resources employees even before the posting process began. That early start enabled us to make effective use of the time of available. Applicants for Phase 2 positions, other than Human Resources, were then able to be scheduled for PDI assessments in time to complete the Phase 2 appointments before the end of the year. Because we are well aware of the anxiety a process like this creates, we are doing everything possible to keep the process moving at a swift pace, but also ensuring that the quality and effectiveness of the process is not compromised.

32) Q: When the first phase of the restructuring was announced, the number of regions was reduced from seven to four. Doesn't that mean we are reducing the local focus?

A: No. Reducing the number of regions will actually allow us to make the best use of the organization's size and capability. It will promote greater communication and allow more responsibility and accountability to transition from the Corporate Center to the regional and local offices. Each of the local utility subsidiaries will continue as an operating utility in that state with a principle office located in that state. The operational support and personnel necessary to assure continued high-quality customer service will be enhanced. There will also continue to be a principle manager in each state who will be responsible for interacting with key stakeholders and representing the Company.

33) Q: During the acquisition process we were told that growth, not employee reductions was the driving force behind the acquisition. How are the Company's actions today consistent with what we were told during the acquisition approval period?

A: Statements made during the acquisition process, including those that focused on growth, continue to be true. Statements made that we didn't expect significant short-run synergy savings, other than through the merger of the two New Jersey utilities are also true. During that period we spoke at length about the opportunities to implement best practices, improve service to customers and make more effective use of the size of the organization. That is precisely what is happening through this restructuring process. All commitments made during the acquisition process have been and will continue to be met, including those relating to job security and the value of employee benefits. Where reductions in staff have occurred, or will occur, prior to March 31, 2004, the affected employees will be compensated through March 31, 2004, unless they have decided to resign voluntarily or have found new employment. Our goal is to become more customer focused by applying uniform practices, and to grow our business.

34) Q: Isn't this restructuring just intended to offset the price paid to acquire American Water?

A: No. The restructuring is about improving our customer focus, making the organization more responsive and enhancing our growth potential. It will allow us to fulfill the goals that we had for the merger and the representations that we made to customers, regulators and employees. The purchase price for the acquisition was based on the growth potential that exists in the United States. The restructuring needs to be accomplished for business reasons. American Water has changed vastly since the time of the last restructuring in the early 1990's. Through a number of acquisitions, the size of the Company has doubled. Whereas most large companies undergo a major organizational change every 5 – 7 years, it had been almost twice that time since American Water last experienced a major restructuring. In fact, even before the merger with RWE, American Water had begun to consider a major business change, involving regional consolidation. That process was put on hold during the merger proceeding.

35) Q: For the last several months, I have been hearing about a number of initiatives such as Procurement, Ideas into Action, and most recently Business Process Blueprinting. How do all of these different initiatives tie together?

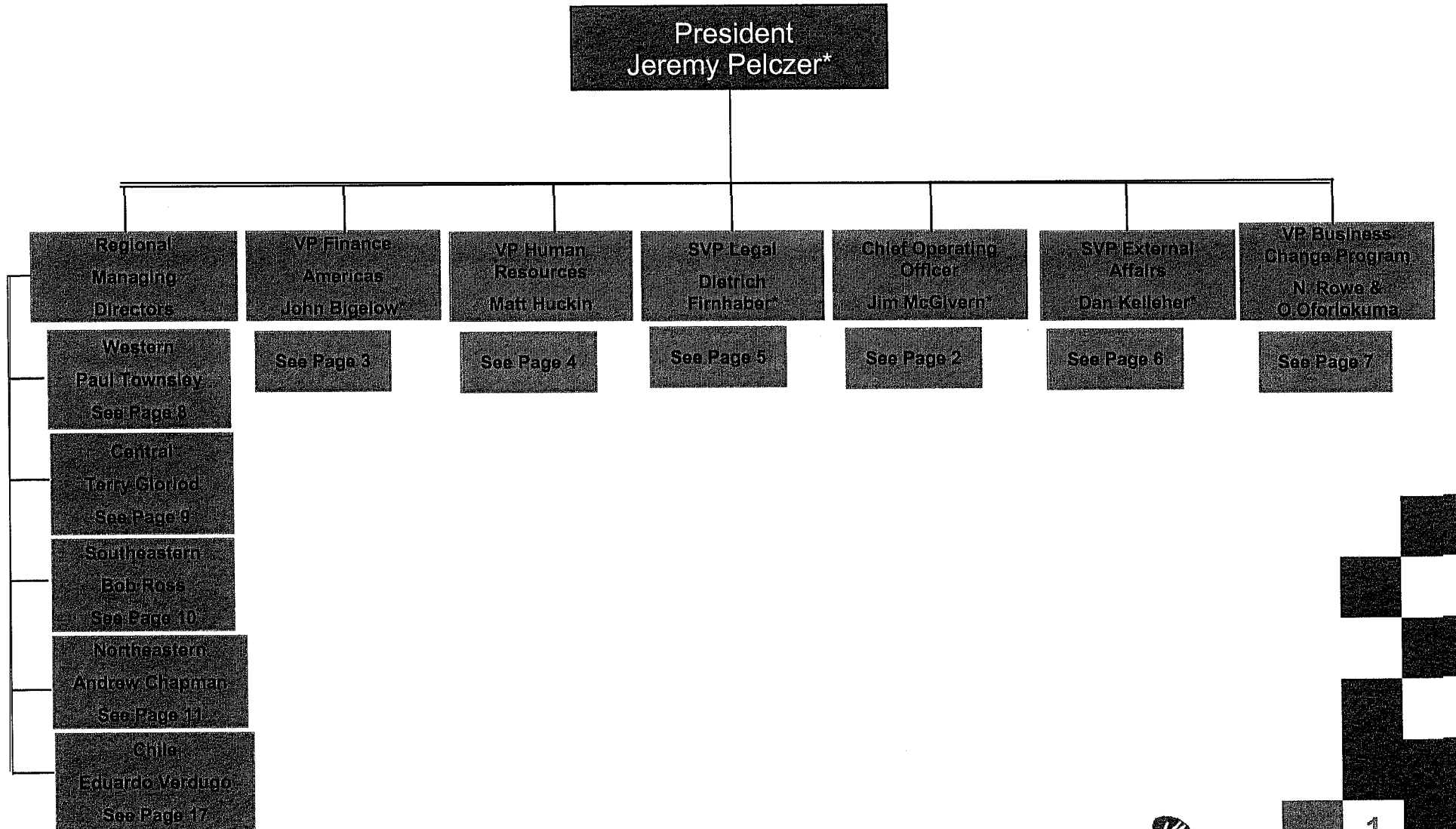
A: It is true; we have a number of initiatives underway. In fact, we are fortunate to have hundreds of employees throughout the organization actively involved in helping us evaluate and implement new approaches to the business. While each of the initiatives is focused on a specific purpose, they all tie together as part of an overall business process improvement and cultural change program. The organizational restructuring is a key component that will enable us to pursue our vision, and fulfill the potential of our business. By moving decision-making closer to our customers, pushing responsibility and accountability lower in the organization, and maximizing the use of shared services whenever possible, we will be able to better meet the needs of the business. We know there is a lot of change occurring, and we appreciate the continued commitment of our employees advising us on better ways to serve our customers. It is important that every employee continue to focus on meeting our customer's needs.

36) Q: Will there be an employee voluntary severance or early retirement opportunity in Phase 3 or future phases?

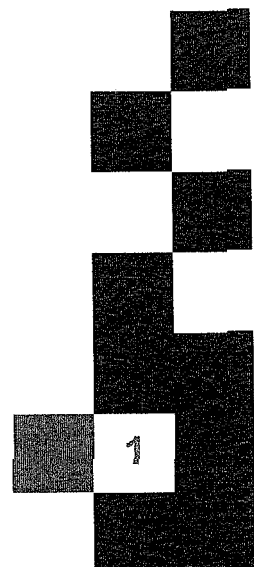
A: No. We have looked at a number of alternatives as we prepared to begin this restructuring process. We do not anticipate having such an option.

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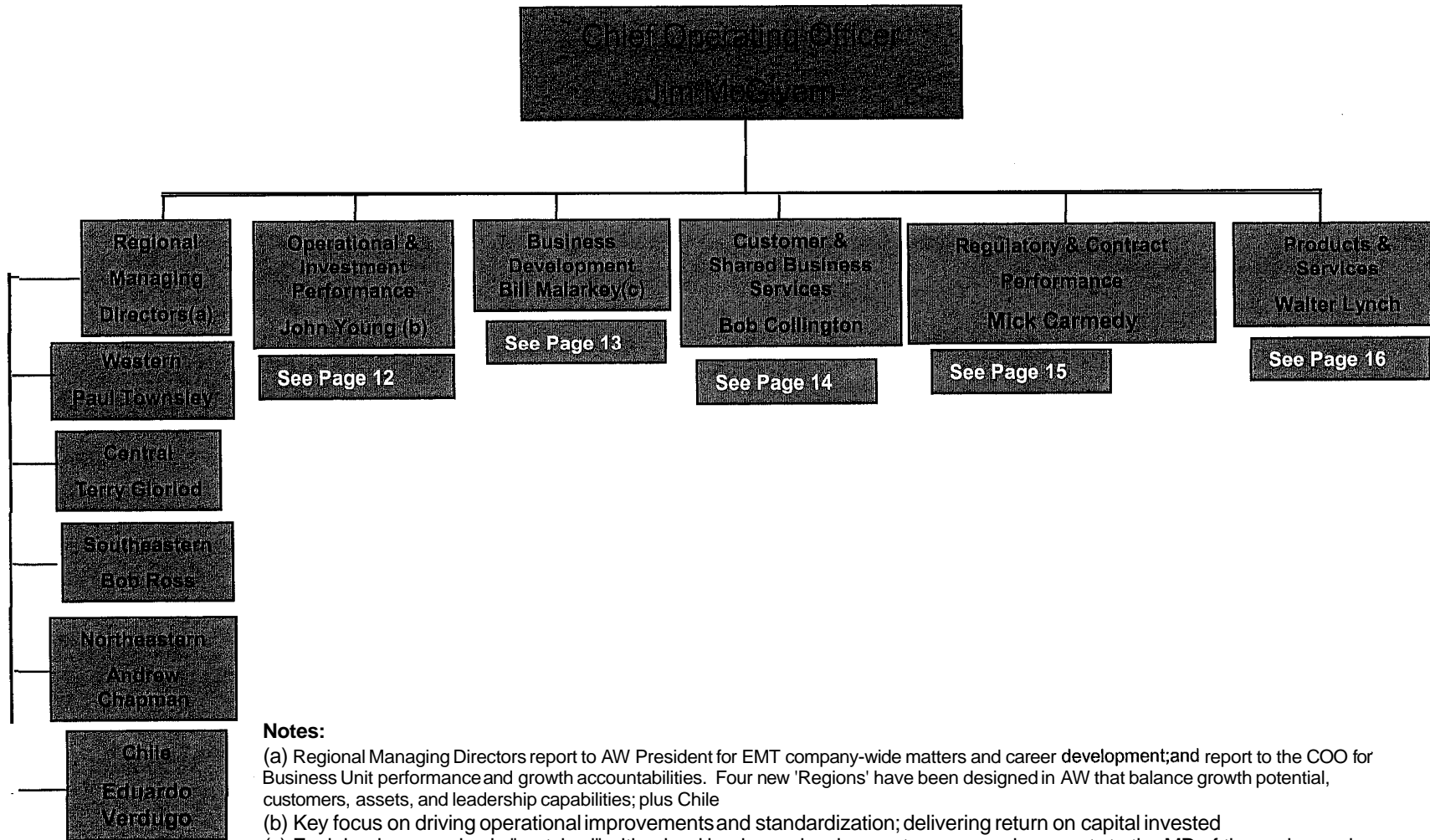
The New Structure: The Executive Management Team Direct Reports to the President



* Denotes member of the AW Board



The New Structure: Chief Operating Officer Team

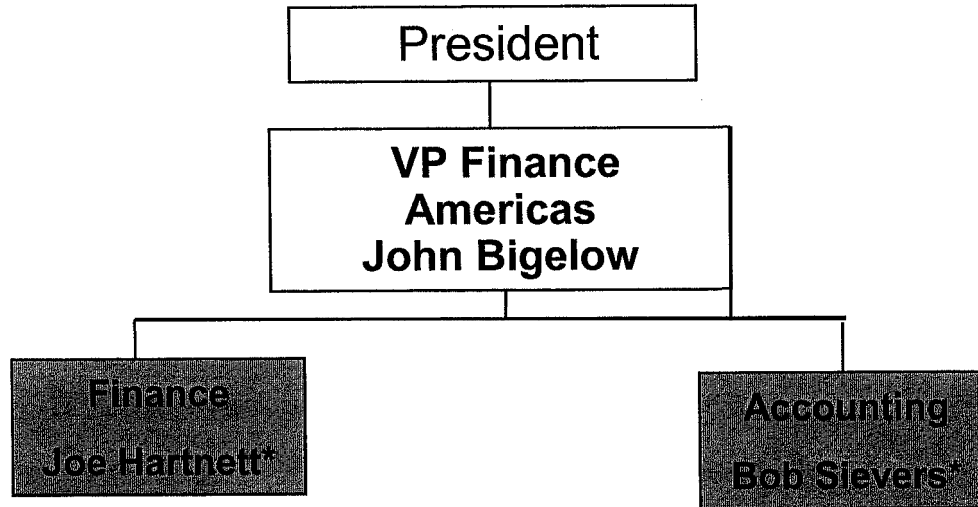


Notes:

- (a) Regional Managing Directors report to AW President for EMT company-wide matters and career development; and report to the COO for Business Unit performance and growth accountabilities. Four new 'Regions' have been designed in AW that balance growth potential, customers, assets, and leadership capabilities; plus Chile
- (b) Key focus on driving operational improvements and standardization; delivering return on capital invested
- (c) Each business region is "matched" with a lead business development manager who reports to the MD of the region and functionally to the head of the Business Development within the COO team. These regional roles to be confirmed in Phase 2.

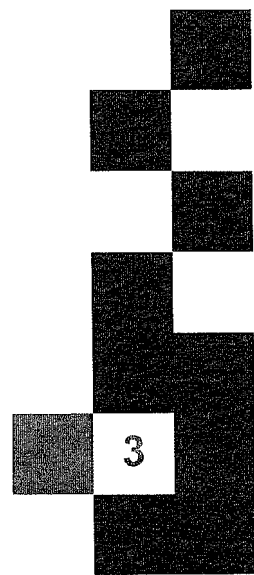


The New Structure: Finance Function

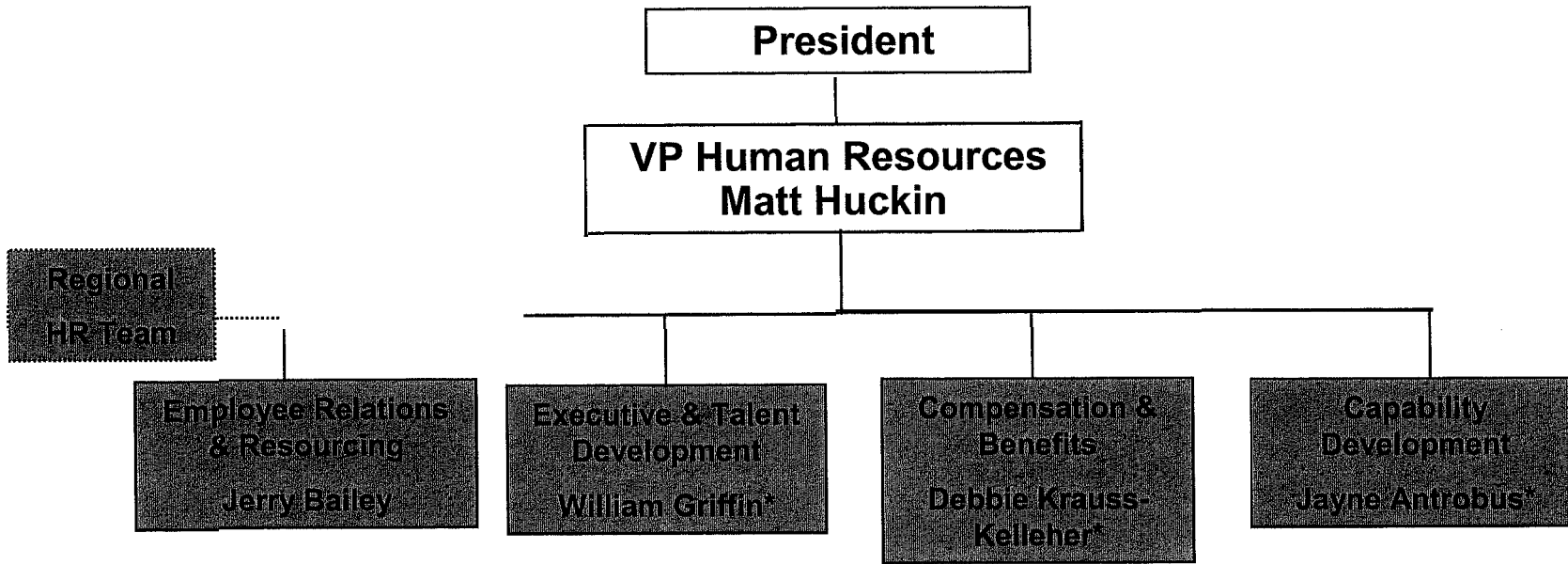


*Incumbent

Phase 3 Positions to be announced

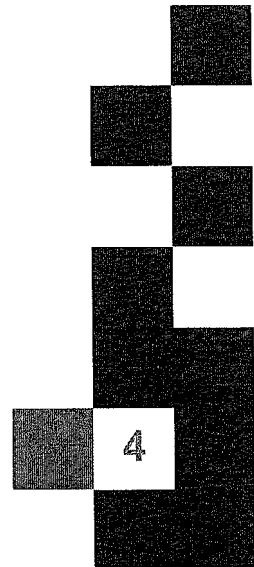


The New Structure: Human Resources

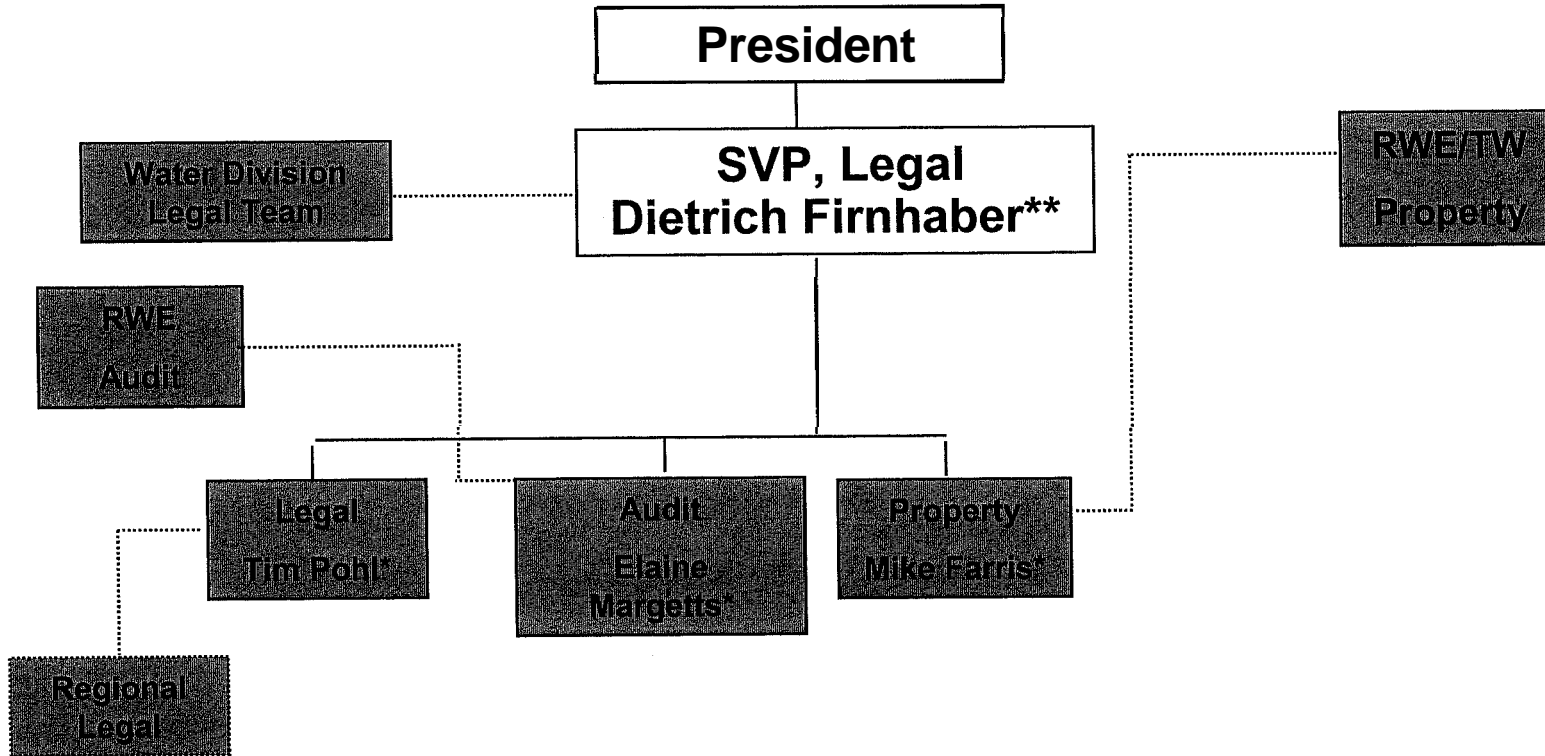


*Incumbent

Phase 3 positions to be announced



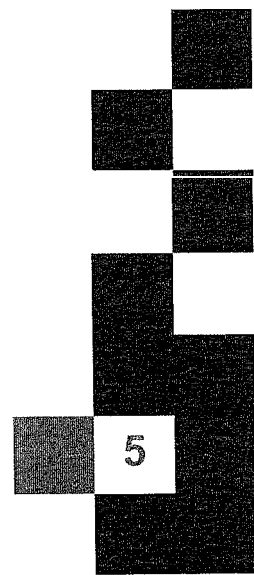
The New Structure: Legal



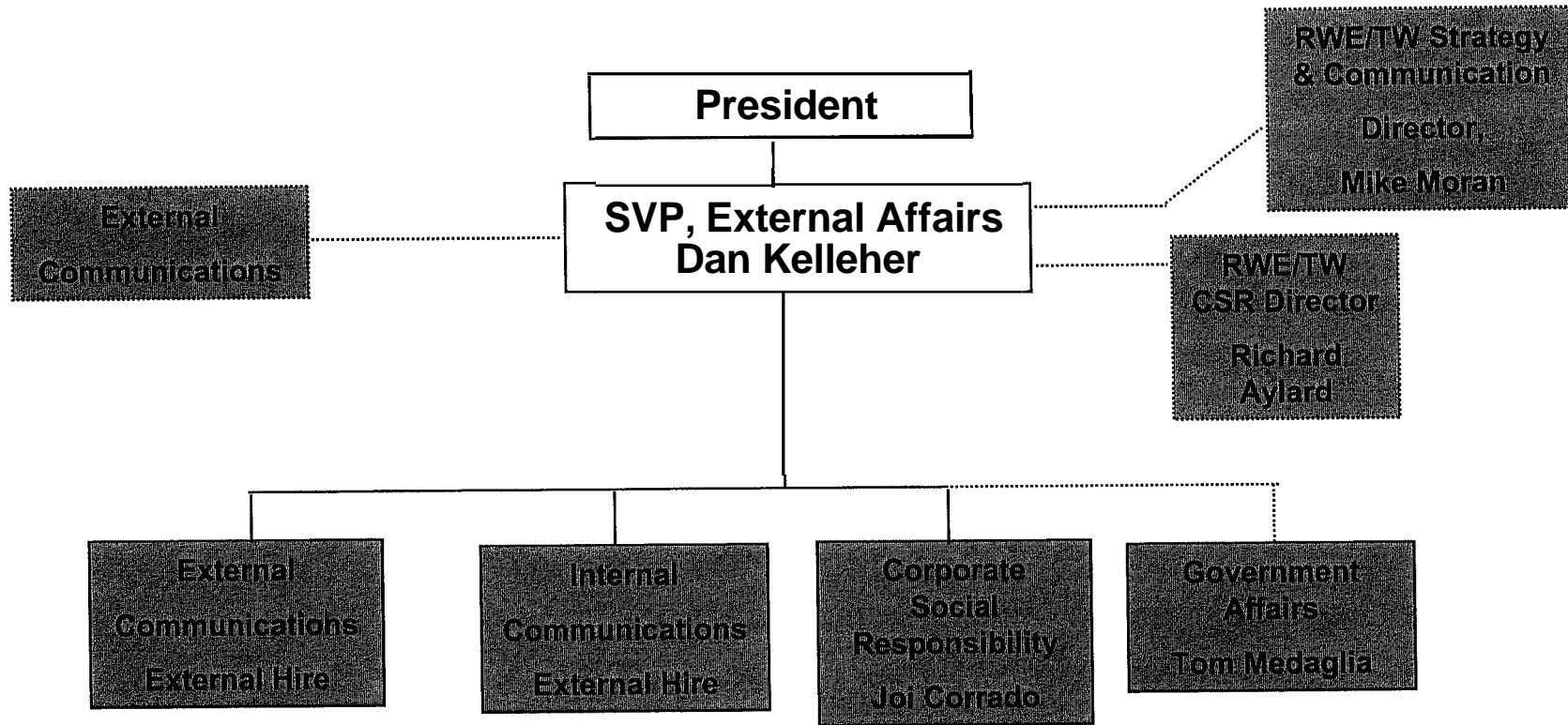
Phase 3 positions to be announced

*Incumbent

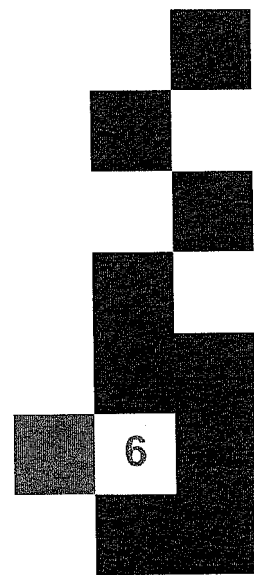
**RWE/Thames Director Legal World Wide



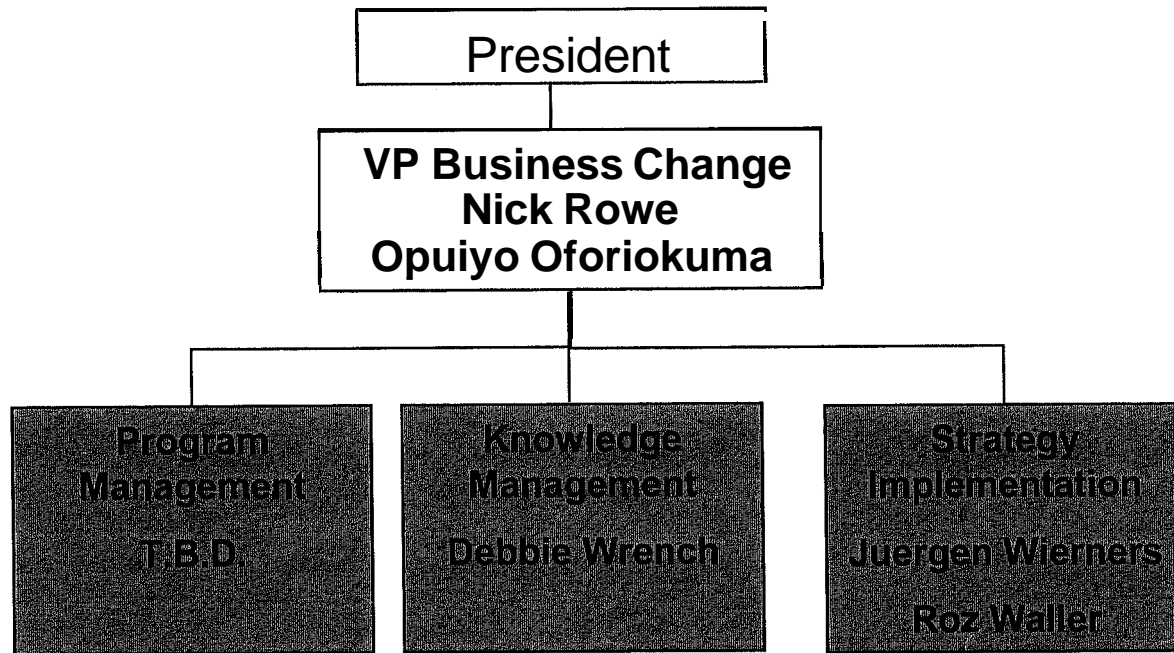
The New Structure: External Affairs



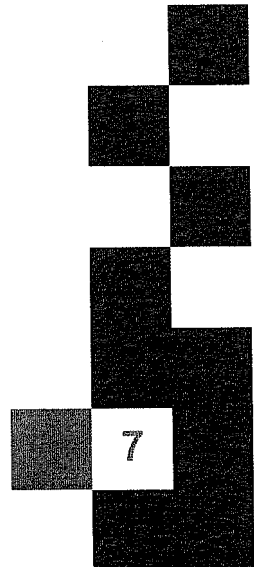
Phase 3 Positions to be announced



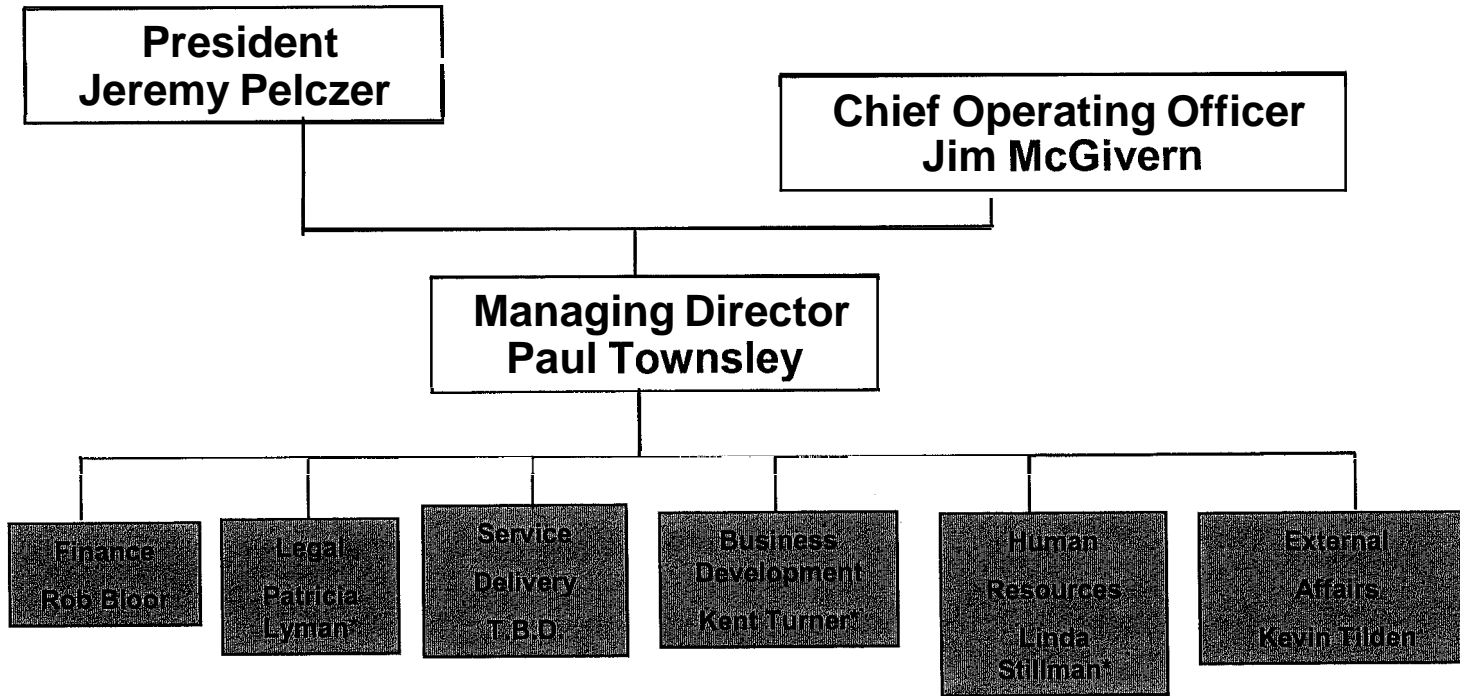
The New Structure: Business Change



Phase 3 positions to be announced

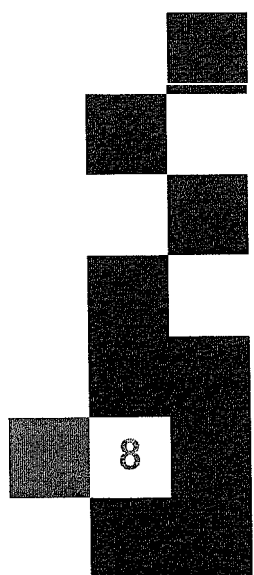


The New Structure: Regional Organization: Western

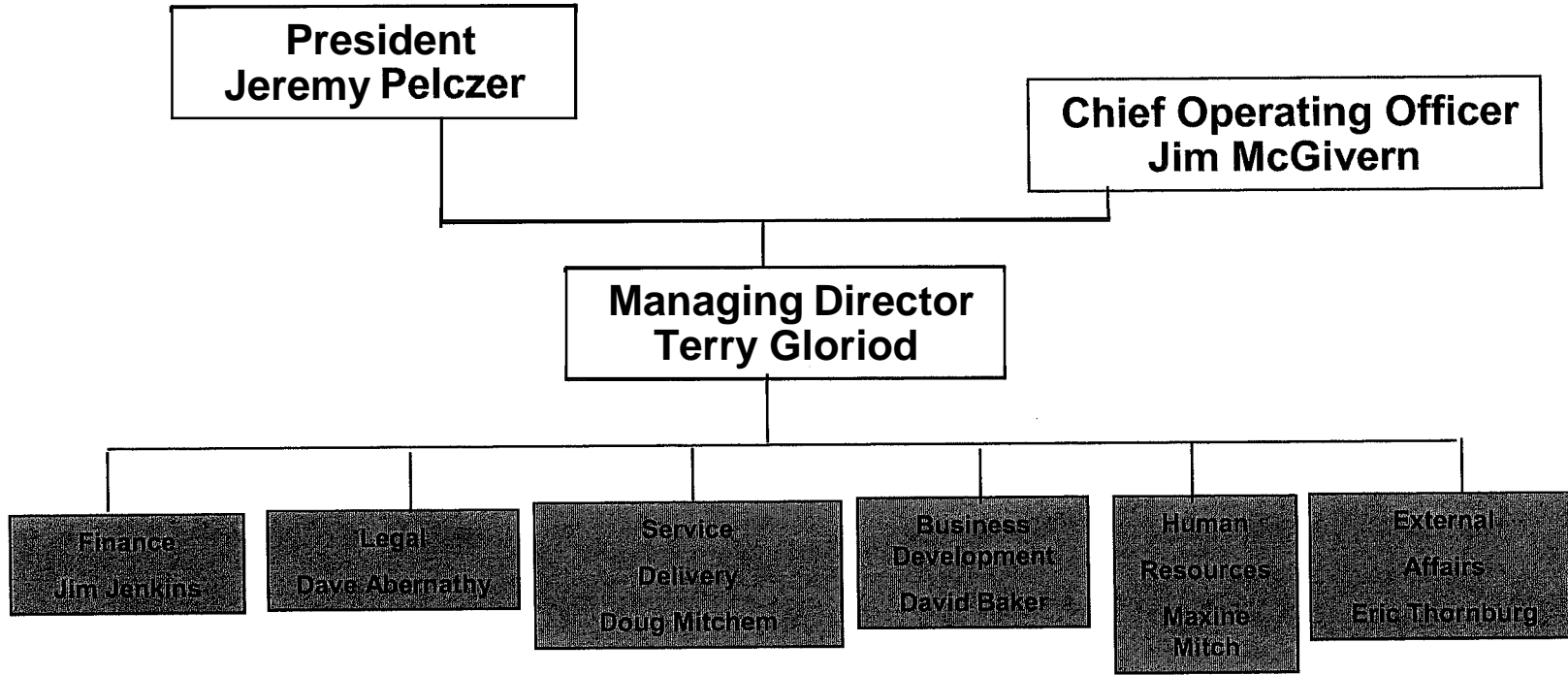


*Incumbent

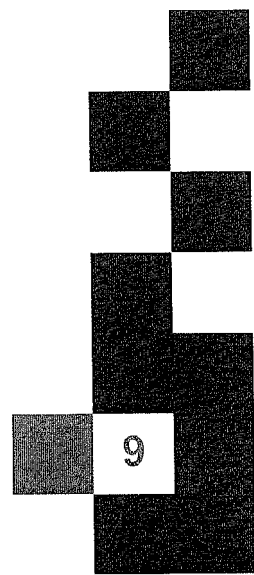
Phase 3 positions to be announced



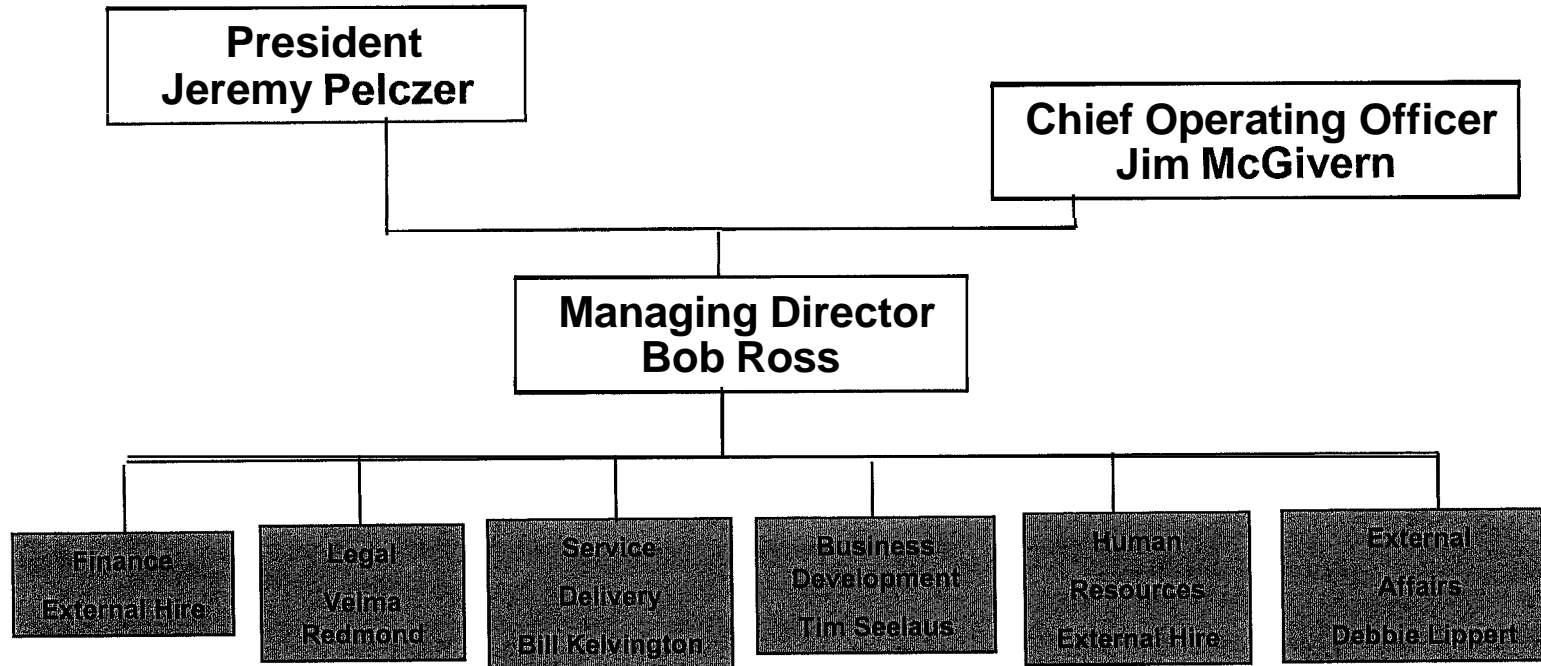
The New Structure Regional Organization: Central Region



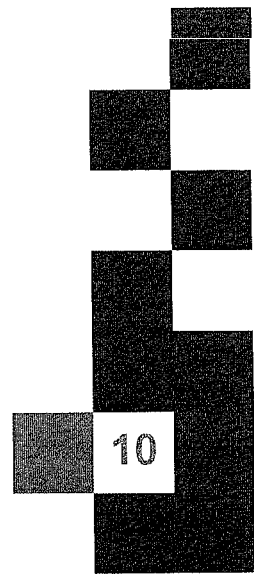
Phase 3 positions to be announced



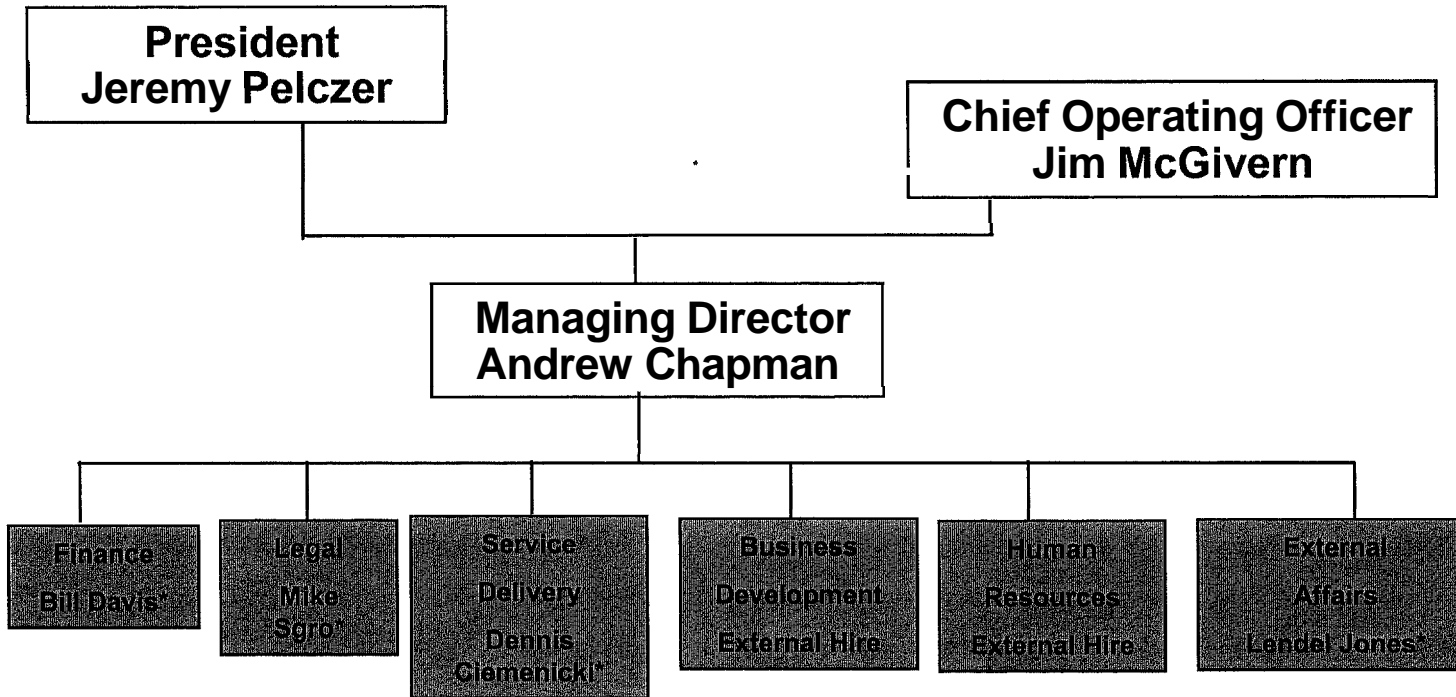
The New Structure: Regional Organization: Southeastern Region



Phase 3 positions to be announced

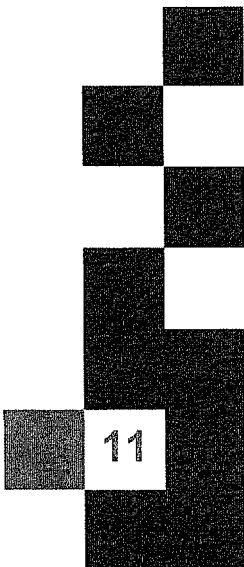


The New Structure Regional Organization: Northeastern Region

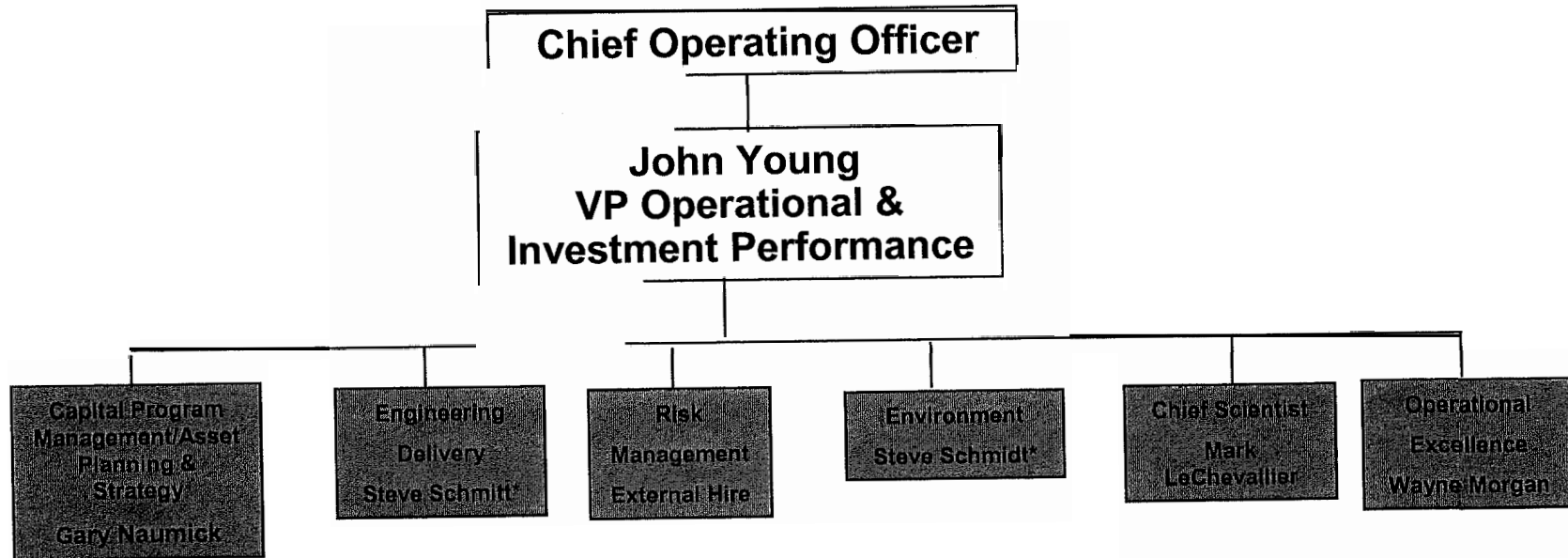


*Incumbent

Phase 3 positions to be announced



The New Structure: Operational & Investment Performance

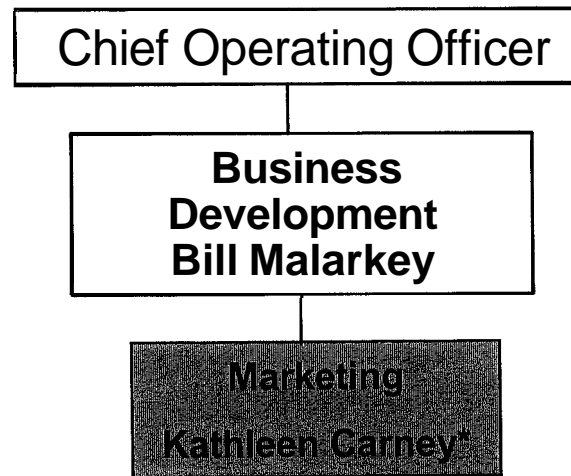


*Incumbent

Phase 3 positions to be announced

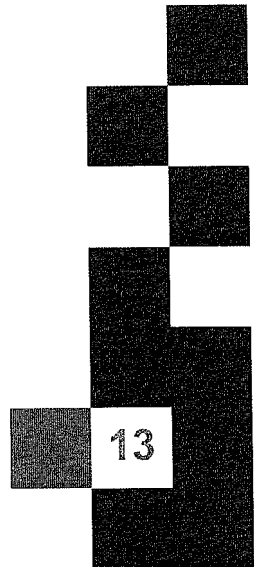


The New Structure: Business Development

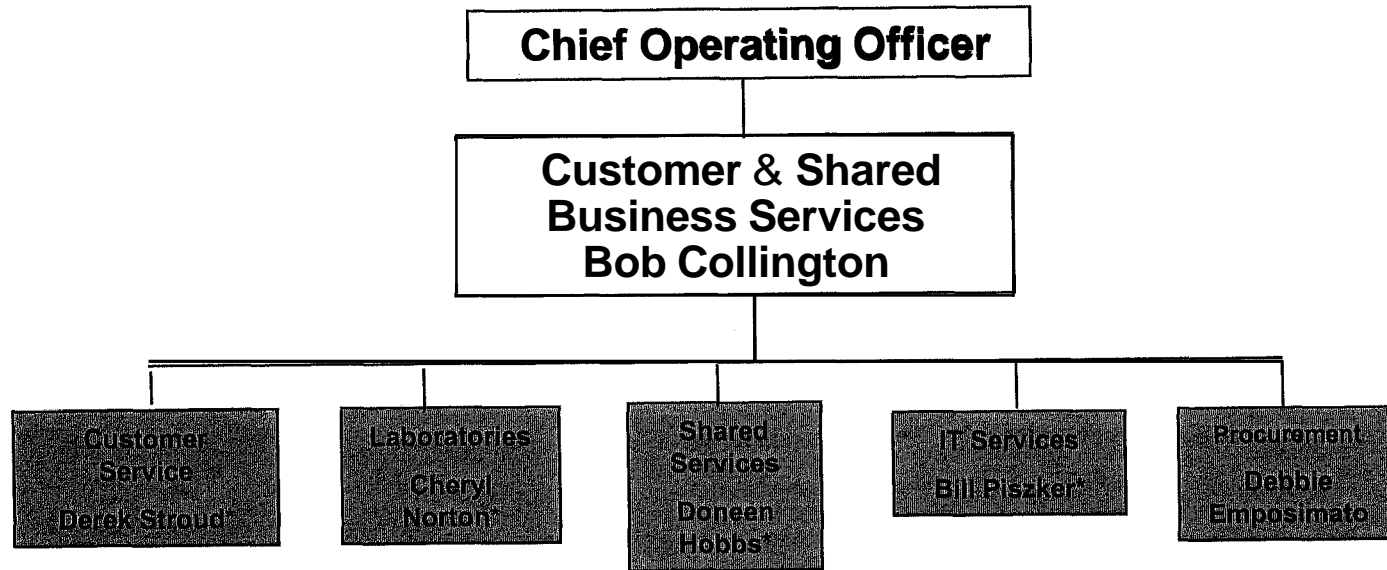


*Incumbent

Phase 3 positions to be announced

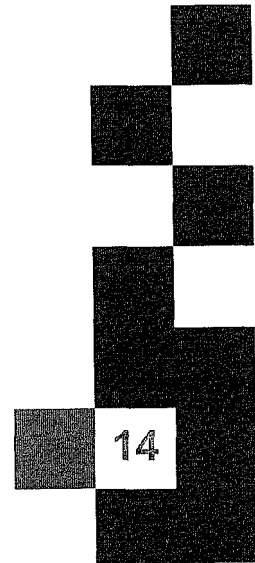


The New Structure: Customer & Shared Business Services

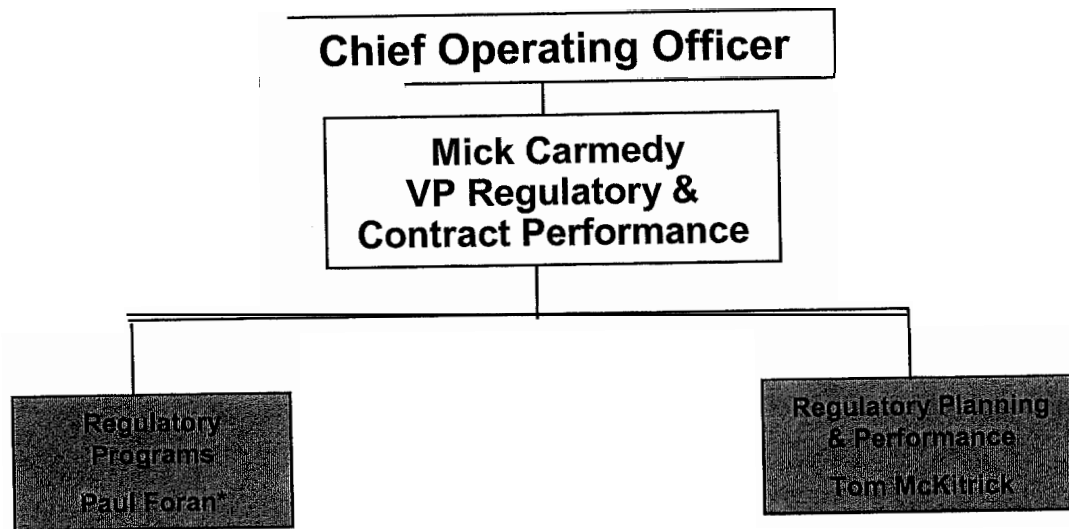


*Incumbent

Phase 3 positions to be announced

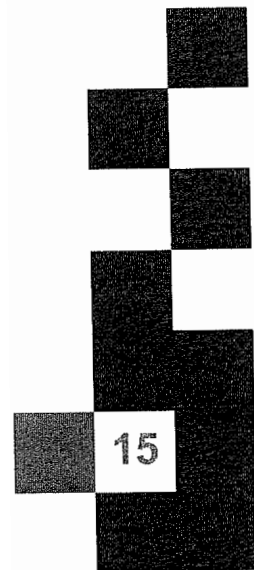


The New Structure: Regulatory & Contract Performance

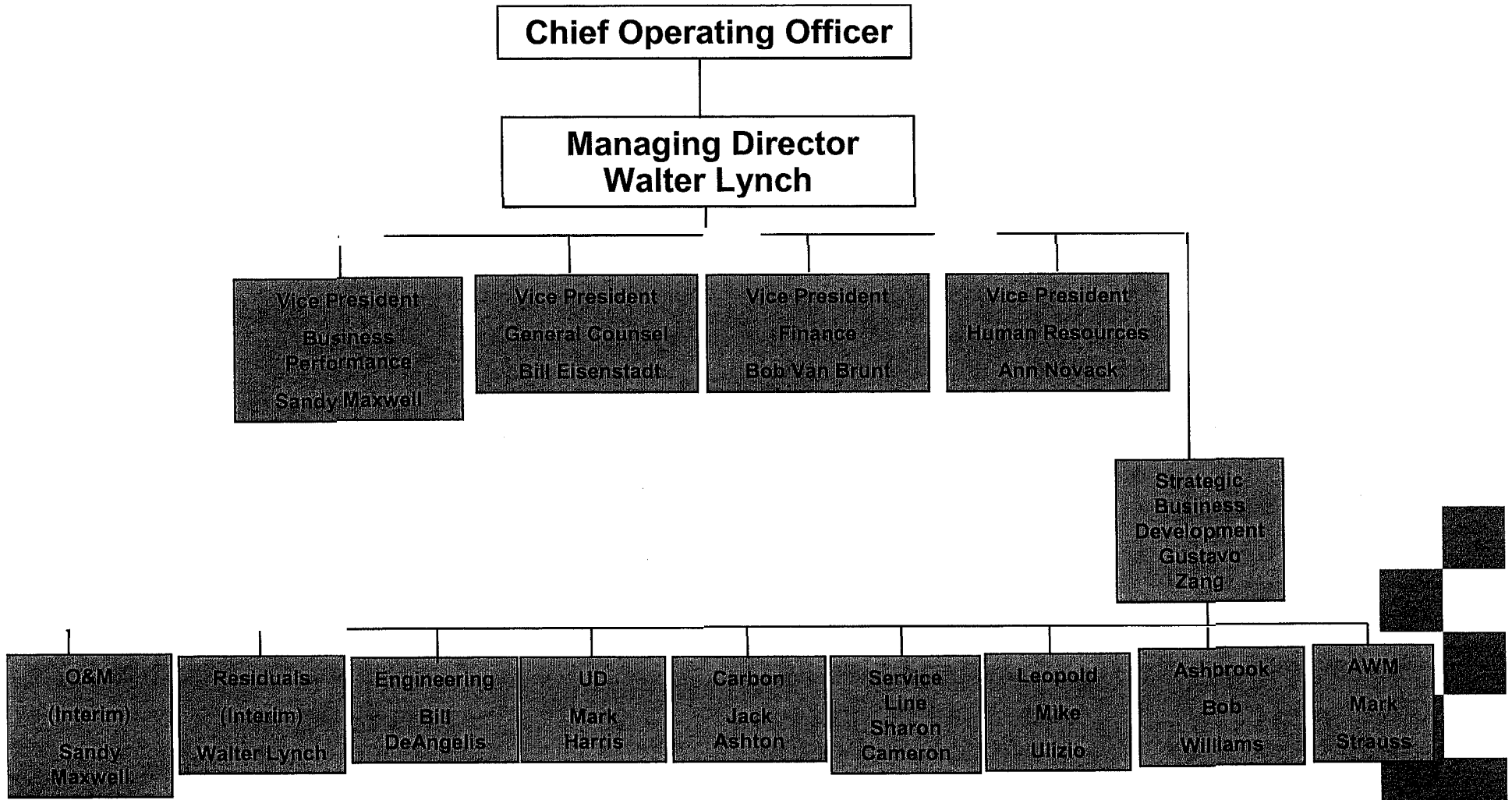


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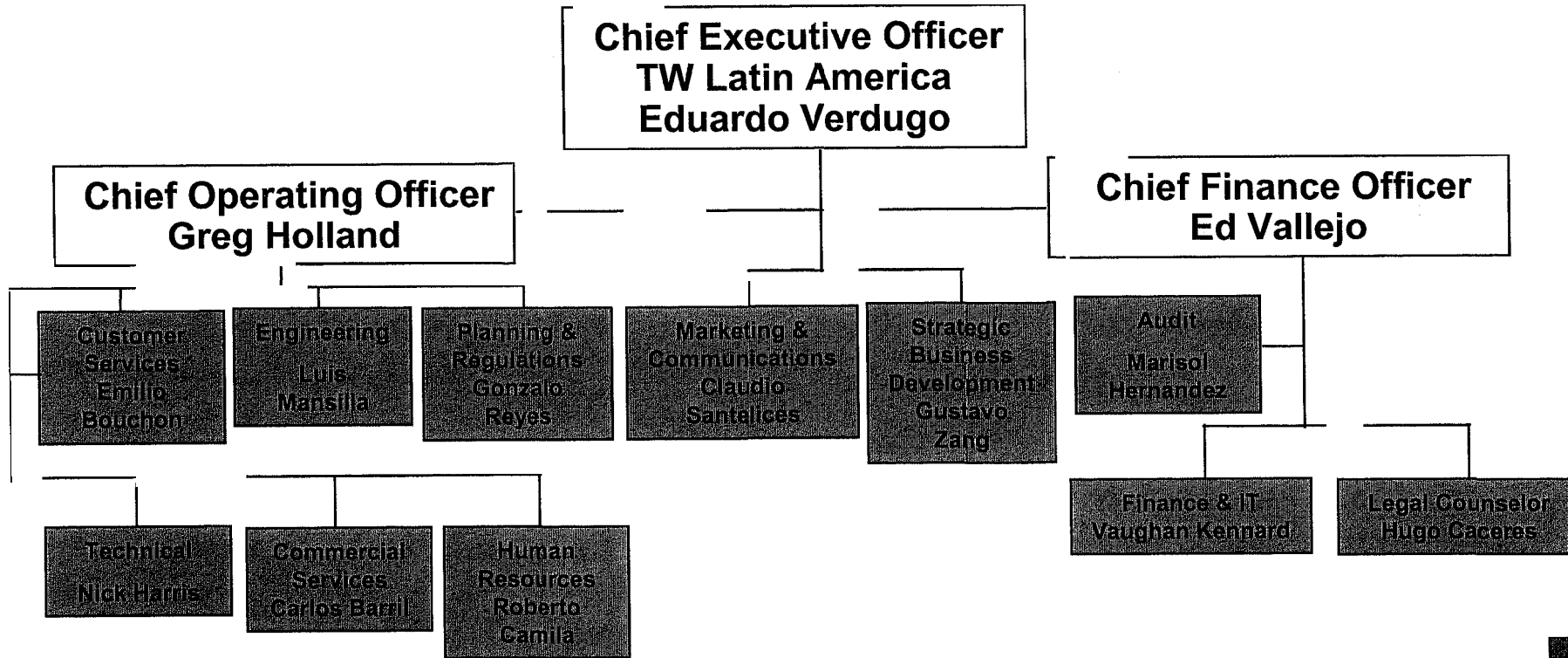
Phase 3 positions to be announced



The New Structure: Regional Organization: Chile



The New Structure: Regional Organization: Chile





Memo

To All American Water Employees From Jeremy Pelczer, President & CEO
Date February 6, 2004 Phone 856.346.8302
Subject: Organization Restructuring -- Phases 3 & 4 Fax 856.346.8300

Dear Colleague,

I indicated at the Atlanta Conference that I would communicate with you today further information about the ongoing restructuring process at American Water, specifically, Phases 3 and 4. I also advised that the job posting and further update would be issued by March 3rd. As we have discussed, American Water has not undergone a comprehensive review covering the whole business since the early 1990s. It is necessary that we now create an organizational structure that meets the demands of our industry and fits the American Water vision and strategy.

No matter how necessary the change, I understand the uneasiness it creates and appreciate your patience. The process we are going through is different than anything many American Water employees have experienced, and that adds to the anxiety. However, I believe we have taken every step possible to ensure the process is fair.

While Phase 1 and 2 milestones were met on time, we are moving forward with the next phase two weeks later than planned because of the complexity of designing the next levels of the organization. As each phase has led to the next, we have carefully reviewed new information and input from employees in an attempt to improve the process.

Our goals for the next phases are the same as the first two phases:

- Place the right people in the right roles
- Conduct an open, fair and transparent selection process
- Complete the management phases of the restructuring by July, 2004
- Continue to share information on a timely basis.

We will continue to use our external consultant, PDI in the next phases of the restructuring and will add additional resources to help us expedite the process. In Phases 1 and 2, we assessed approximately 130 employees and made approximately 30 appointments. Where we decided not to fill Phase 2 positions from within the organization, we are proceeding with an external recruitment process. We are also accelerating the process for filling a number of positions in our Business Development area.

Phases 3 and 4 are much larger than Phases 1 and 2. There are approximately 1,800 management and professional positions encompassed in the Phase 3 and 4

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Memo

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processes. That is why it was important that we learn all we could from the earlier phases before beginning Phases 3 and 4. Nevertheless, we have a plan to enable us to progress in a disciplined manner by identifying two separate phases and by sequencing the postings and assessments for groups of positions.

Let me share one of the challenges I face in the process. Until the design work is completed at the end of the month, it is not possible to guarantee every job posting under Phase 3 will be announced March 3rd – certainly the substantial number will be. I have been advised to expect some wave of Phase 3 job postings will be made later in March. If this is the case, I will be clear on that date in the March 3rd communication. I am sorry if this is not ideal, but it has the virtue of being open and honest. However, on a much more positive note, this has not diminished our determination to complete the process by July, which has been our consistent intent.

To provide further explanation of the organization design and timetable I have attached several charts. These charts set out the details of how the process will work going forward, and a high level view of a typical region organization structure. As you review the structure, you will note it is conceptual in that the individual boxes refer to functions or tasks. The charts are not intended to indicate numbers of positions or how many levels will be finalized. This is because we are pursuing a consultative approach with the Regional Managing Directors and their team, which is still in progress. The complete structures, including the relevant number of positions, will be in the March 3rd communication.

In addition, I am enclosing a Q&A document, which is intended to answer some of the questions I think you might have. We have sought to anticipate as many questions as possible. If you have any questions that are not covered in this communication packet, I hope you will raise them with your line manager, communication manager or human resources manager. If you have supervisory responsibility, I would encourage you to use this information to discuss with your team. You may submit questions or any feedback you may have to our email site, letsachieveit@amwater.com. We welcome your feedback and will be certain to reply. The general feedback I have received to date strongly prefers regular updates on progress, even if still under development, rather than no updates until final announcements.

As I expressed in yesterday's communication about our Atlanta Business Conference, I continue to be impressed by the spirit and commitment of our employees. I am certain that many of the individuals that attended the Atlanta Business Conference and video-cast were anxious about the restructuring and business changes even while they were participating. However, that anxiety did not diminish their active involvement and participation in the meeting. That is a tribute to the caliber of people we have at American Water.

Memo

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I will also commit to you that we will complete the process as soon as possible without compromising the quality or how each individual is treated. In the meantime, I know you will continue to do what you do best, which is to maintain the reliability and integrity of our operations and to provide excellent service to our customers. This whole review is about taking the business forward; it is not easy and it is a time of anxiety, but at the conclusion, my aspiration is that we are able to work more effectively as a team in pursuit of our goals and responsibilities to each other and our customers.

Yours sincerely,

Jeremy Pelczer

February 6, 2004



Phases 3 & 4 Announcement – Questions & Answers

1) Q. What are the Phase 3 jobs? Are they only direct reports to the Phase 2 positions?

A: The positions in Phase 3 generally include the next level of the organization that will report to Phase 2 positions. In addition, Phase 3 will include complete functional teams in both the Voorhees Corporate Center and Regional offices. The positions that will be involved in the Phase 4 process are generally supervisory and superintendent level positions involved in the operations area of the business. Only positions that materially change will be involved in the assessments.

2) Q. When are you going to release the regional organizations and the jobs associated with the regional structure?

A. We will communicate with you the regional structures with the March 3rd job posting communication.

3) Q. Will the timeline for completion be revisited or is July still the target?

A: We continue to plan on completing the management phase of the restructuring process by the middle of 2004. We believe that conducting phases 3 and 4 on a parallel track will enable us to achieve that timeline, while continuing to ensure the process is fair.

4) Q. Will the salary bands and titles for the Phase 3 and Phase 4 positions be announced when the posting is communicated?

A: The process of establishing the proper salary grades for each position involved in the restructuring process is continuing. The step-by-step process we are going through means that each phase builds on the previous phase. As positions are identified, we have to evaluate the jobs, write descriptions and establish a salary range. We have worked hard to expedite this part of the process, and expect to apply salary ranges to the Phase 1 and 2 appointments in the very near future. Every effort will be made to announce as many of the Phase 3 and Phase 4 positions as possible at the time the posting communication is issued. We will do everything possible to post only those positions for which salary ranges have been identified. However, it may be necessary to post some positions before salary information is finalized. For those positions, we will announce salary information as soon as possible following the posting. To the extent that all of the salary bands are not able to be announced at that time we will communicate that information just as soon as it is able to be released.

5) Q. What jobs will be involved with a PDI assessment?

A: Because of the large scale of Phases 3 and 4 we intend to use more than one consultant, and PDI will be one of the firms we use. There will also be different assessment components depending on the specific role. Our intent is to match the type of assessment with the overall responsibility and kinds of leadership involved in each position. Jobs that are not materially changed through the restructuring will not be posted, and incumbents will not be required to be assessed. The March 3rd communication will specify which positions have materially changed.



February 6, 2004

6) Q: What is the assessment process going to involve?

A: The details of the assessment process for different positions are still being refined. That information will be provided with the communication scheduled to be issued on March 3rd, 2004. An important component of the assessment process is the feedback each employee receives concerning personal strengths and development needs. Whether an employee is successful in being appointed to a new role or remains in an existing role, development needs will become an important part of our employee development program.

7) Q: Has there been any thought to loss of experienced knowledge as some individuals leave the business?

A: Maintaining institutional knowledge is important for any organization, and it is an important component of the process we are going through. At the same time, we are committed to appointing the right people for the right roles in our newly restructured organization. We believe our process will enable us to accomplish both goals.

8) Q: Will relocation be available for all positions in the phase 3 and 4 restructuring?

A: As part of the communication announcing postings for phases 3 and 4 we will confirm the relocation support that will be available. It is unlikely that we will seek to relocate entry-level positions or front line supervisors, but we will consider each case on its merits.

9) Q: How can an employee make an informed decision about a position in one phase if they don't know what positions will be included in subsequent phases?

A: We realize that has been a concern of some employees during the Phase 1 and Phase 2 processes. The step-by-step, consultative process that we have decided to use in our restructuring has prevented us from being able to announce all levels of the organization at one time. However, in preparing for the phases we announce today, we decided to develop a structure which would allow a broader view of the remaining management level positions. That is the major reason why we have been unable to make this announcement sooner. Later this month we will be communicating the Phase 3 organization design and in late March we will communicate the Phase 4 organization design. In that way, we hope to enable employees to better identify positions for which they have an interest.

10) Q: Are all the regions going to be structured the same way?

A: The organization design principles will be the same for each region. That is, we will have a functionally designed and driven structure rather than the geographic structure, which has been our historic model. At the same time the businesses will be integrated horizontally and vertically, meaning that we will make the most effective use of our capability in delivering service to our owned utility businesses (subject to economic regulation) and the competitive business (O&M contracts). To the extent any region requires certain variations to address local circumstances there may be differences from one region to another.

February 6, 2004



11) Q: What is meant by a functional structure and how will reporting occur?

A: Perhaps the best example is to use our production activities. In the functional concept there will be an individual at each region who is responsible for the production-related activities throughout the region. From a functional perspective, all of the employees engaged in production-related work will be part of the function reporting to that lead at the region office. Other functional areas (network engineering, etc.) will be organized in a similar manner.

12) Q: When will descriptions be available for the Phase 3 and Phase 4 positions?

A: Position descriptions for the phase 3 roles will be communicated on March 3rd Descriptions for the phase 4 roles will be communicated in early to mid April.

13) Q: Will the Northeast Region be included in the Phase 3 restructuring?

A: No. Because the Northeast Region was the one region where there were multiple companies (in New Jersey) to be combined there has been a process ongoing in 2003 to restructure that part of the business. Phases 3 and 4 will include the remaining three regions as well as the Voorhees Corporate Center and other Shared Service offices.

14) Q: How are our unions being informed of the new direction American Water is moving in?

A: Over the past several months we have been developing a new working relationship with our labor unions. The approach we are taking with them, as with the entire organization, is to engage in more open communication and more collaboration with the expectation that we will be better able to engage all of our employees. We have met several times with the union leadership at the national level and will continue to discuss our plans openly with them at the national and local levels.

15) Q: If I have more questions or comments, where can I have them answered?

A. Please contact your supervisor, communication manager, or HR manager and use the new email address: letsachieveit@amwater.com

16) Q: What happened to the Shaping our Future email address?

A: We have changed our email site to letsachieveit@amwater.com to signify that we have completed the process of "shaping our future", which was part of Jeremy Pelzer's 100-day plan. We now must deliver our Business plan and business development targets. Our Atlanta Business Conference represented the transition from "shaping" to "achieving".

17) Q: Is the restructuring part of the plan to earn back some of the premium RWE paid for American Water Works?

A: No. We are restructuring because it is the right thing to do for the future of the Company. American has not undergone a restructuring since the early 1990's. Companies the size of American normally do a business review every five to seven years. The leadership of RWE and RWE Thames Water saw great potential for growth in American Water, and that was the basis for acquiring American Water Works.

February 6, 2004



18) Q: During the acquisition process we were told that growth, not employee reductions was the driving force behind the acquisition. How are the Company's actions today consistent with what we were told during the acquisition approval period?

A: Statements made during the acquisition process, including those that focused on growth, continue to be true. Statements made that we didn't expect significant short-run synergy savings, other than through the merger of the two New Jersey utilities are also true. During that period we spoke at length about the opportunities to implement best practices, improve service to customers and make more effective use of the size of the organization. That is precisely what is happening through this restructuring process. All commitments made during the acquisition process have been and will continue to be met, including those relating to job security and the value of employee benefits.

19) Q: For the last several months, I have been hearing about a number of initiatives such as Procurement, Ideas into Action, and most recently Business Process Blueprinting. How do all of these different initiatives tie together with this restructuring process?

A: We do have a number of initiatives underway. In fact, we are fortunate to have had over 1,500 employees throughout the organization actively involved in helping us evaluate and implement new approaches to the business, in addition to submitting their ideas into Action. While each of the initiatives is focused on a specific purpose, they all tie together as part of an overall business process improvement and cultural change program. The organizational restructuring is a key component that will enable us to pursue our vision, and fulfill the potential of our business. Last week, at our Atlanta Business Conference, we communicated about all of the initiatives, and how they will benefit our employees, our customers and our business. Our new structure will move decision-making closer to our customers, pushing responsibility and accountability lower in the organization, and maximizing the use of shared services whenever possible.

20) Q: Will employees be able to apply for more than one position?

A: Yes. As each position is advertised, there will be attendant position requirements and responsibilities. Any employee who meets those requirements and is interested in and capable of fulfilling the responsibilities, including relocation if necessary, is encouraged to apply for consideration.

21) Q: Will non-management employees have the opportunity to apply for supervisory or management positions?

A: Yes. Any employee who feels they meet the qualifications of the position that is advertised, and are willing to fulfill the responsibilities may apply for the position.

22) Q: Have there already been **lay-offs** or staff reductions in some areas of the business?

February 6, 2004



A: Changes are occurring in all areas of our organization. In a few areas, such as New Jersey and some of our Products and Services businesses, changes have dictated that positions be eliminated during 2003. In those situations, and in the restructuring overall, we remain committed to meeting the spirit of no lay-offs prior to March 31, 2004. In circumstances where positions are eliminated sooner than March 2004, the individuals affected who do not obtain employment elsewhere will be compensated through March 2004 as part of a severance package. That approach is consistent with our intention to treat every employee with dignity and respect, including allowing employees to be able to plan their future to best meet their personal needs.

23) Q: What happens to me if I have been considered for a position but not appointed?

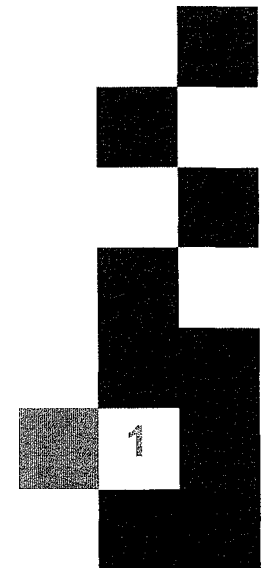
A: If, as a result of our restructuring, an employee is not confirmed in a continuing or new role, we will work with the employee to explain our outplacement and severance plans, which will assist the employee to transition to other employment.



Briefing Pack

AW Restructuring Selection Process Phases 3 and 4

February 6th 2004





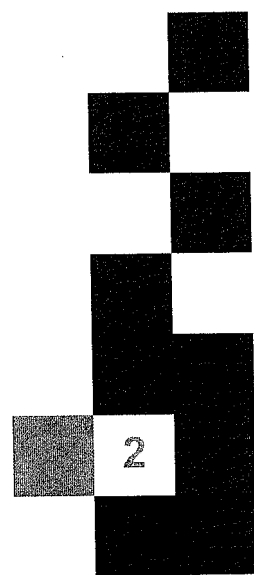
Organization Design Principles

Local businesses will be:

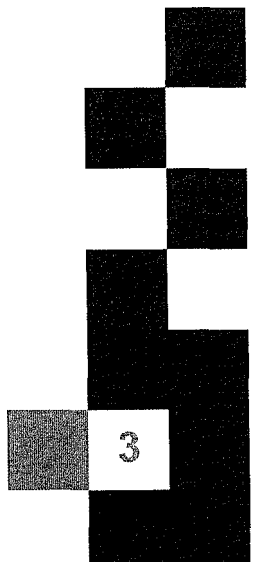
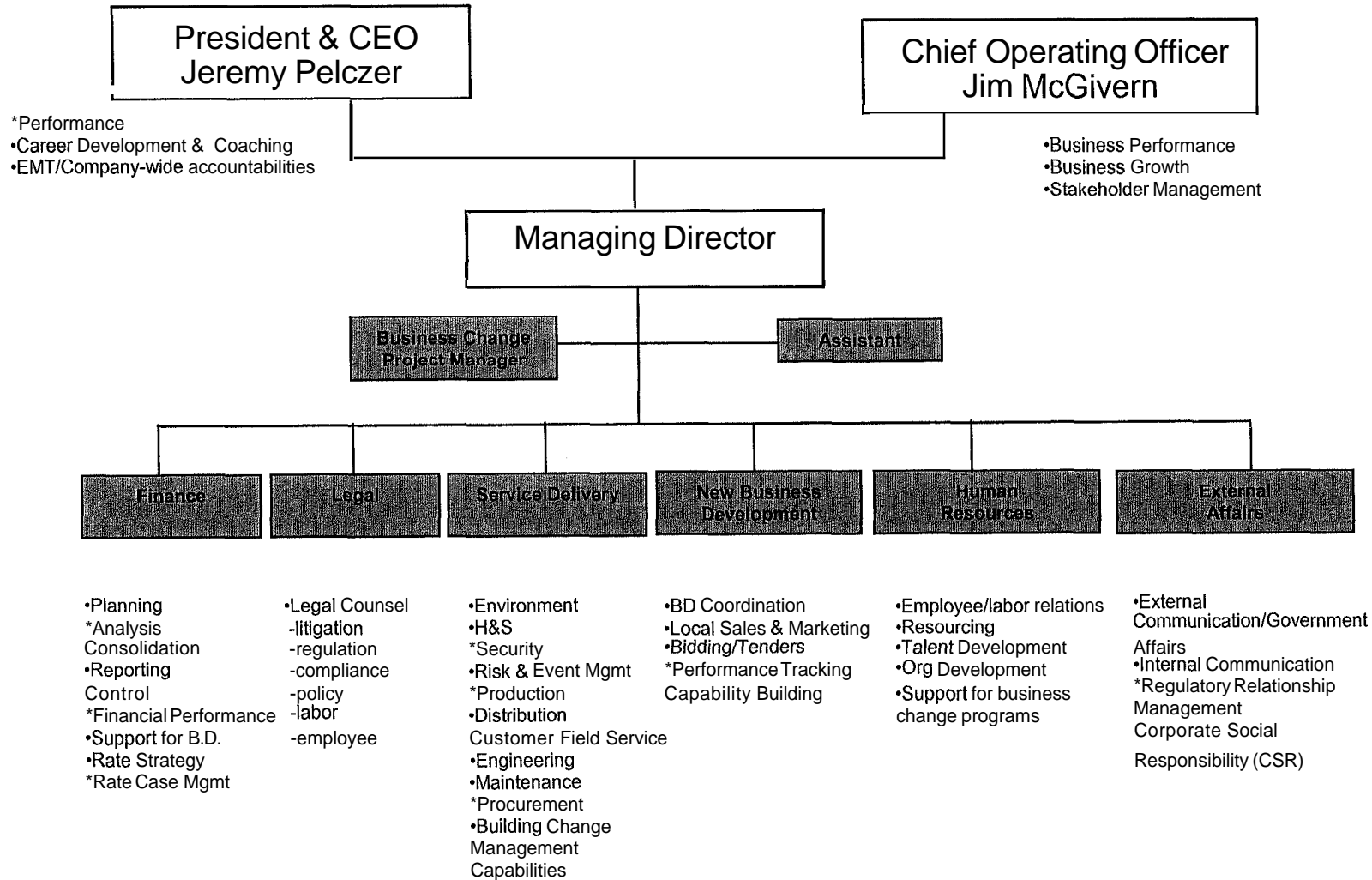
- Delivering services to customers and communities
- Shaping regulation and the competitive market; competing to win
- Functionally designed and driven
- Leveraging operational excellence to accelerate growth
- Integrated horizontally and vertically (functionally driven; regulated and non reg sharing technology and 'know-how')

What will be different?

- The Regions will serve our customers
- The Corporate Center will serve and enable the Regions
- We will all be held accountable for how we behave and what we deliver
- We will have a functionally driven business with common ways of working
- We will act as one team: one culture, one goal, one vision

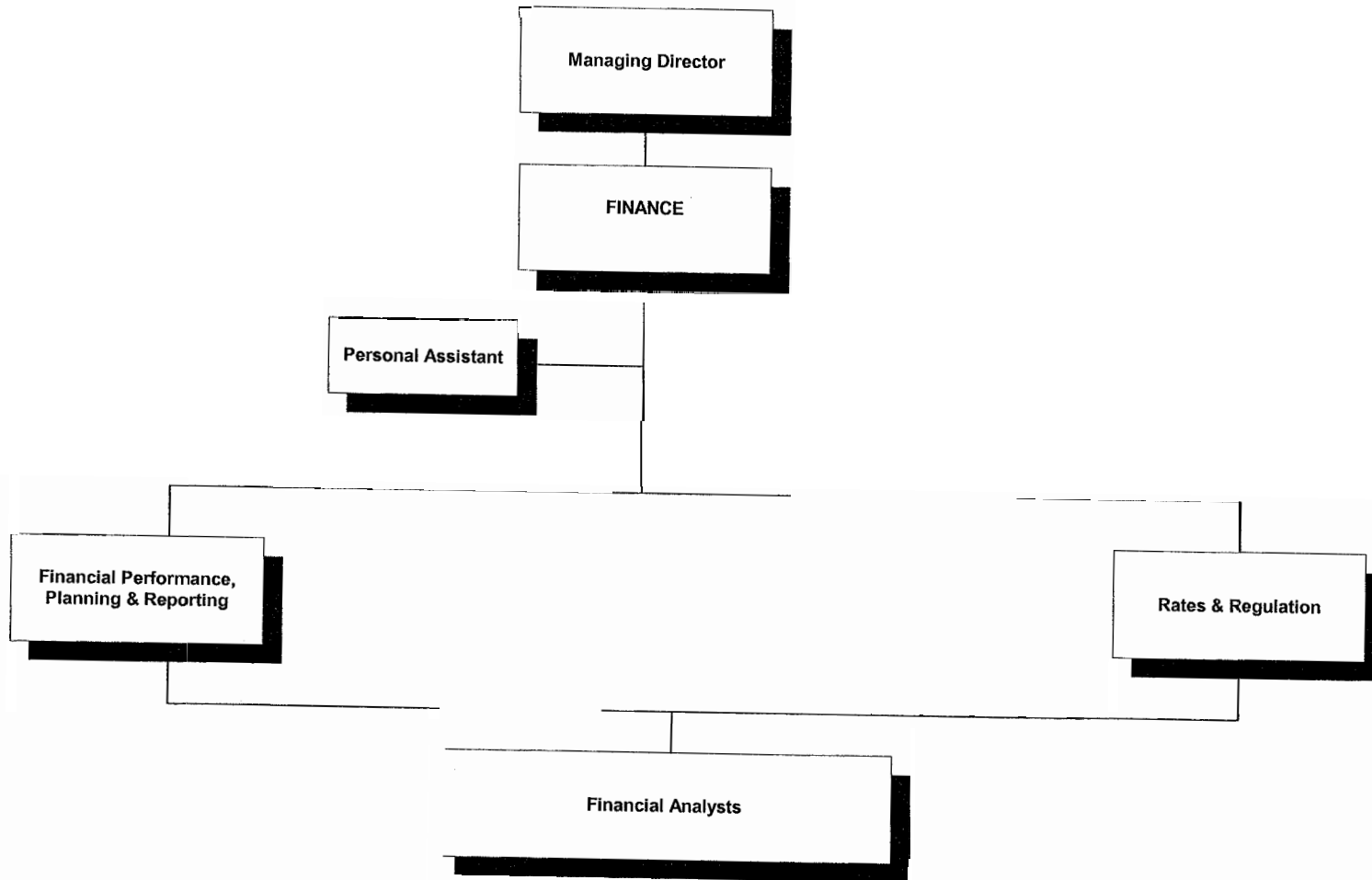


Regional Structure



Typical Regional Structure Finance

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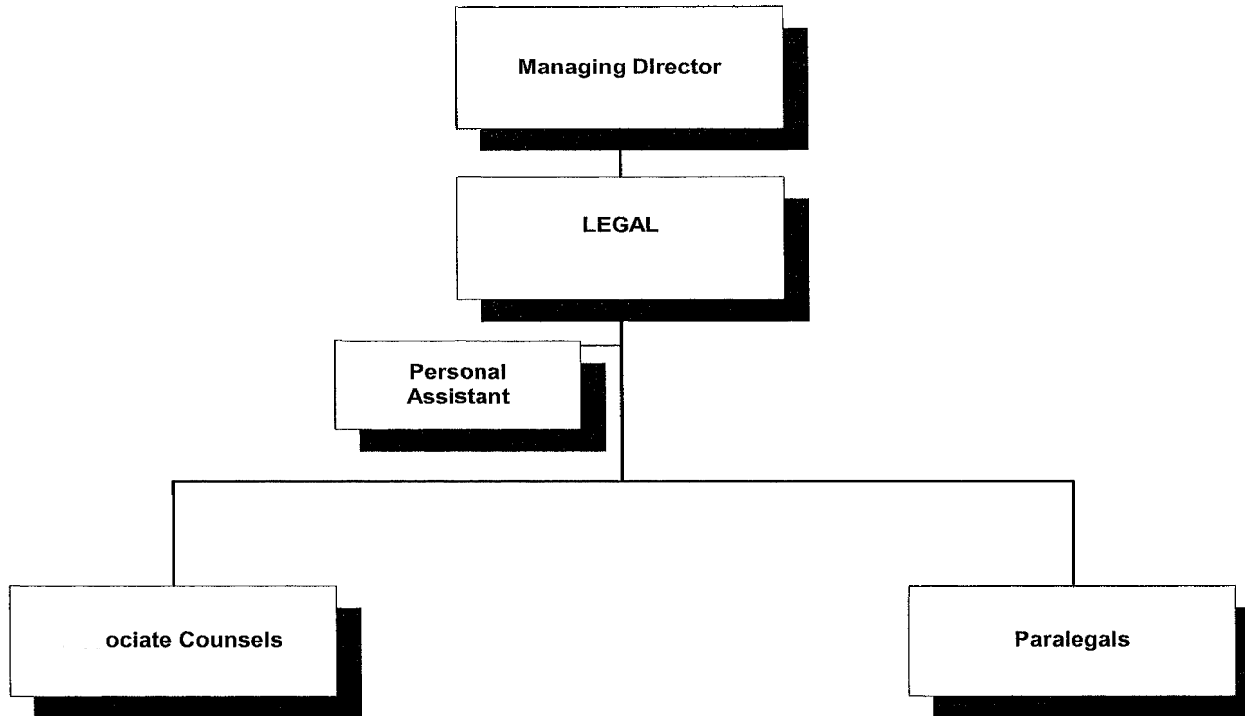


Note: Number and level of positions is dependent on size of region and geography

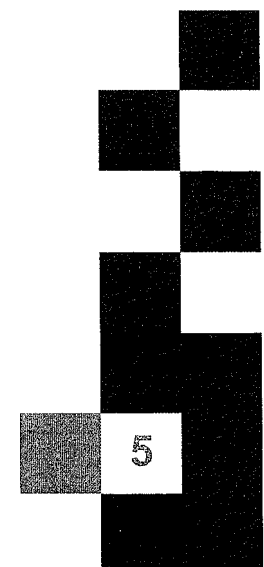


Typical Regional Structure Legal

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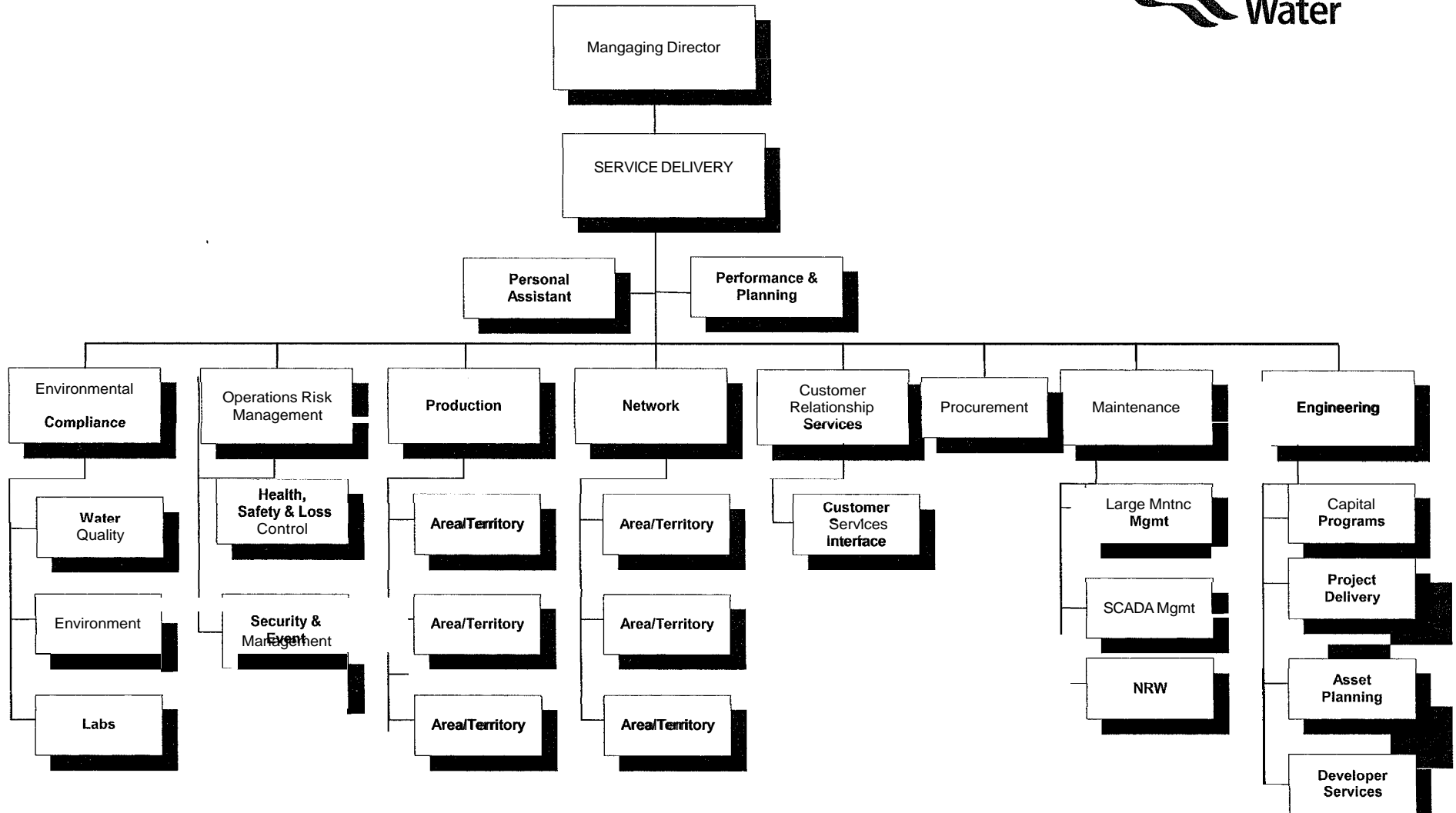


Note: Number and level of positions is dependent on size of region and geography



Typical Regional Structure Service Delivery

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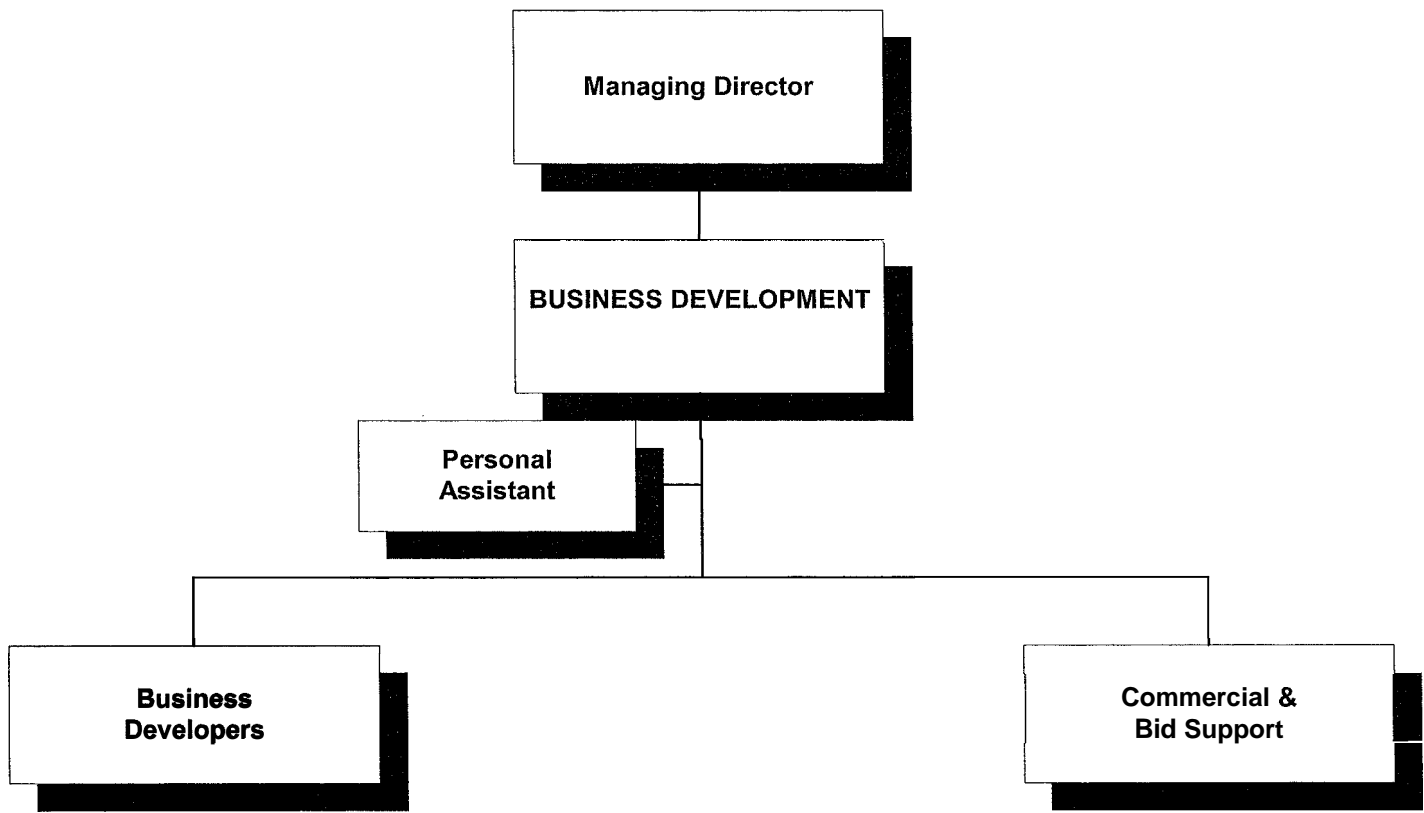


Note: Areas/Territory could be a state, a collection of states, or a service territory depending on the size and geography of the region

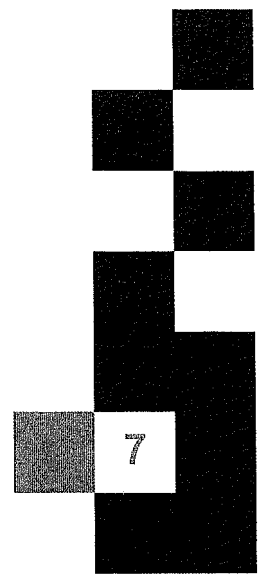


Typical Regional Structure Business Development

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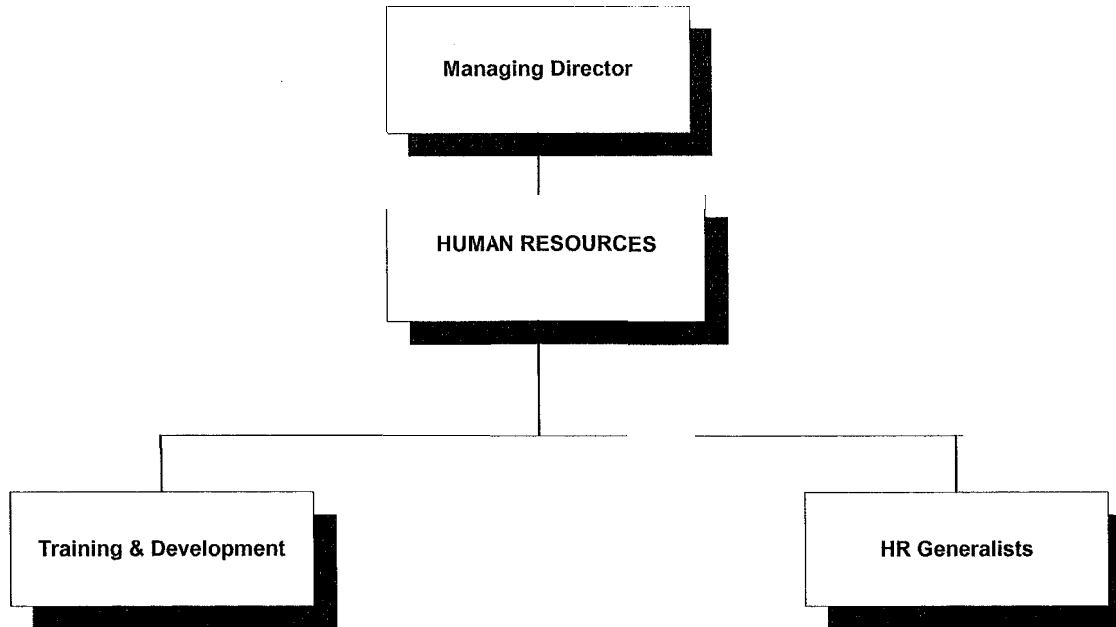


Note: The number and location of developers will be dependent on the size of region and the Business Development growth plans

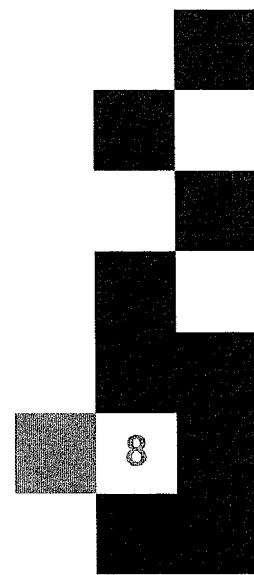


Typical Regional Structure Human Resources

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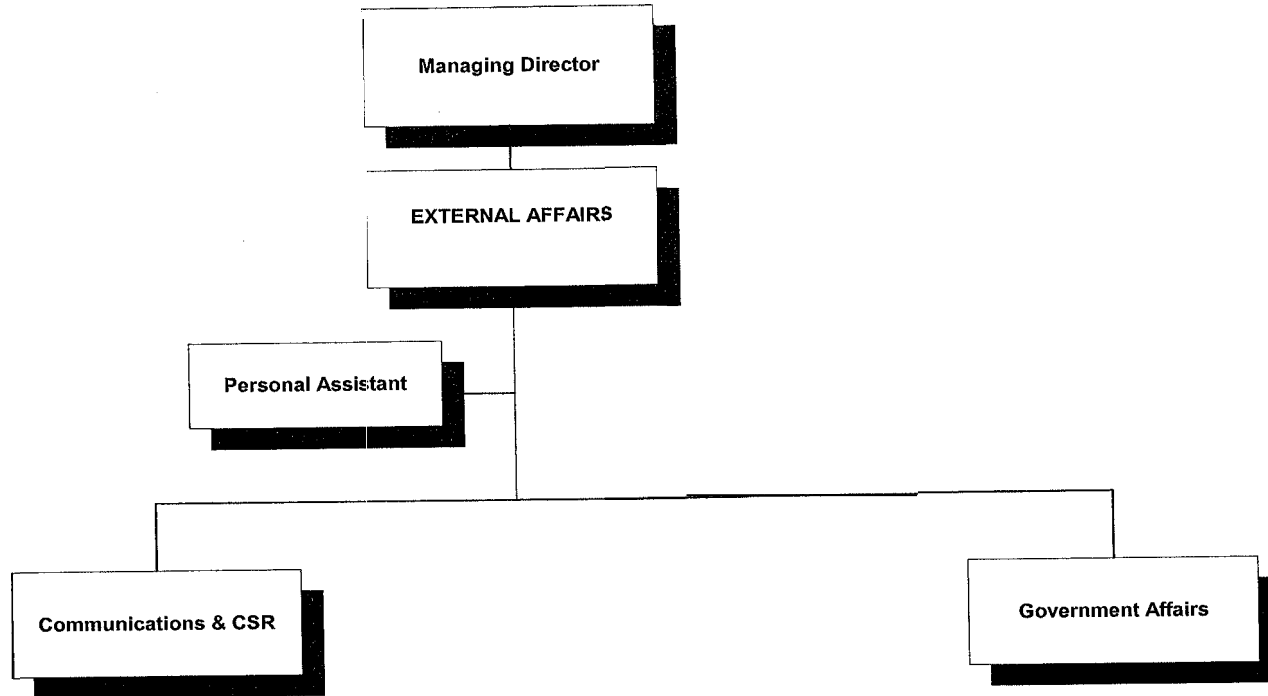


Note: Number and level of positions is dependent on size of region and geography

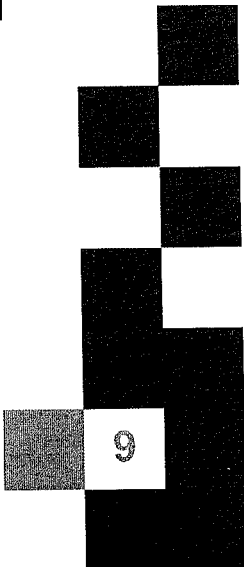


Typical Regional Structure External Affairs

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Note: Number and level of positions is dependent on size of region and geography





Phase 3 and 4 Scope

Phase 3

- Direct reports to Phase 2 appointments Voorhees
- Corporate Center and Region office functional teams

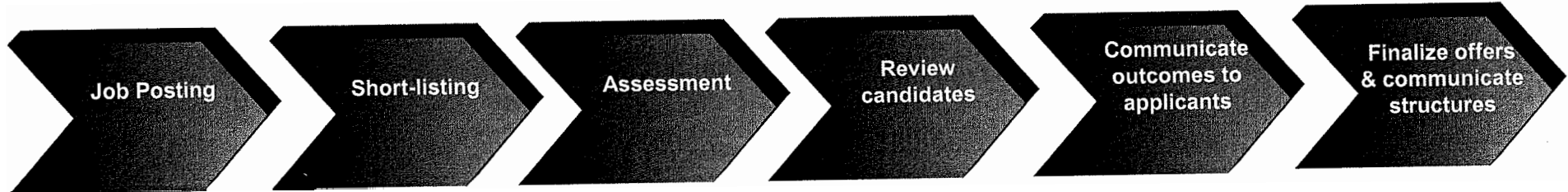
Phase 4

- Superintendents
- Supervisors
- Other 'exempt' employees

- Within Phase 3, there is likely to be two job postings
- Within Phase 4, there will be one job posting
- There will be some overlap between the roll-out of Phases 3 and 4 and the assessment process within each phase will differ depending on the role



Process Overview



- ◆ All roles will be posted on the system-wide posting database
- ◆ Applicants will be asked to attach their resume and complete an application form (if required)

- ◆ Hiring managers will short-list candidates and provide rationale for decisions
- ◆ Outcomes will be communicated to individuals
- ◆ Shortlisted candidates will be scheduled for an assessment (at the nearest assessment location)

- ◆ Candidates will undergo different assessment depending on the role(s) for which they have applied
- ◆ Hiring managers and external partners will be managing this process

- ◆ Round table discussions will be held with hiring managers, HR and external partners in order to make fair and objective selection decisions

- ◆ Individuals will have a conversation with their line managers/local HR representatives which will outline the results of the process and their options going forward

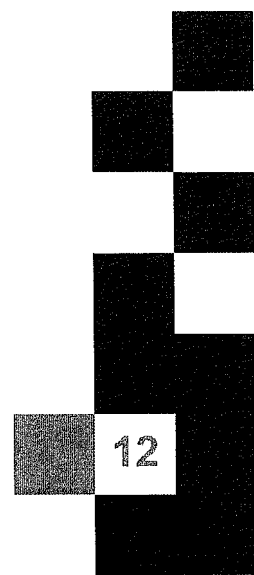
- ◆ Hiring managers will discuss roles and terms with candidates and establish transition plans for their new roles
- ◆ Management structures will be communicated





Job Posting

- Job posting for Phase 3 will begin on March 3rd, 2004
- Individuals will have 5 days from the date of posting to submit an application form
- **All** applicants will need to apply through the system-wide posting database
- Improvements have been made to the system-wide job posting database in order to be respond to applicants more efficiently (alternative email address, alternative telephone number, current region etc.). Please contact your local HR representative if you experience any difficulties in successfully completing an application
- All applicants will receive a confirmation that their application has been received
- All applicants must attach their resume and application form to their ob-posting application





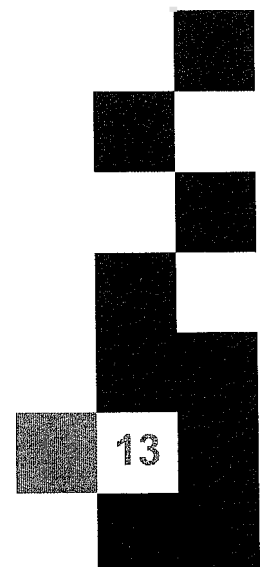
Assessment Process

The process will be objective, transparent, fair and open

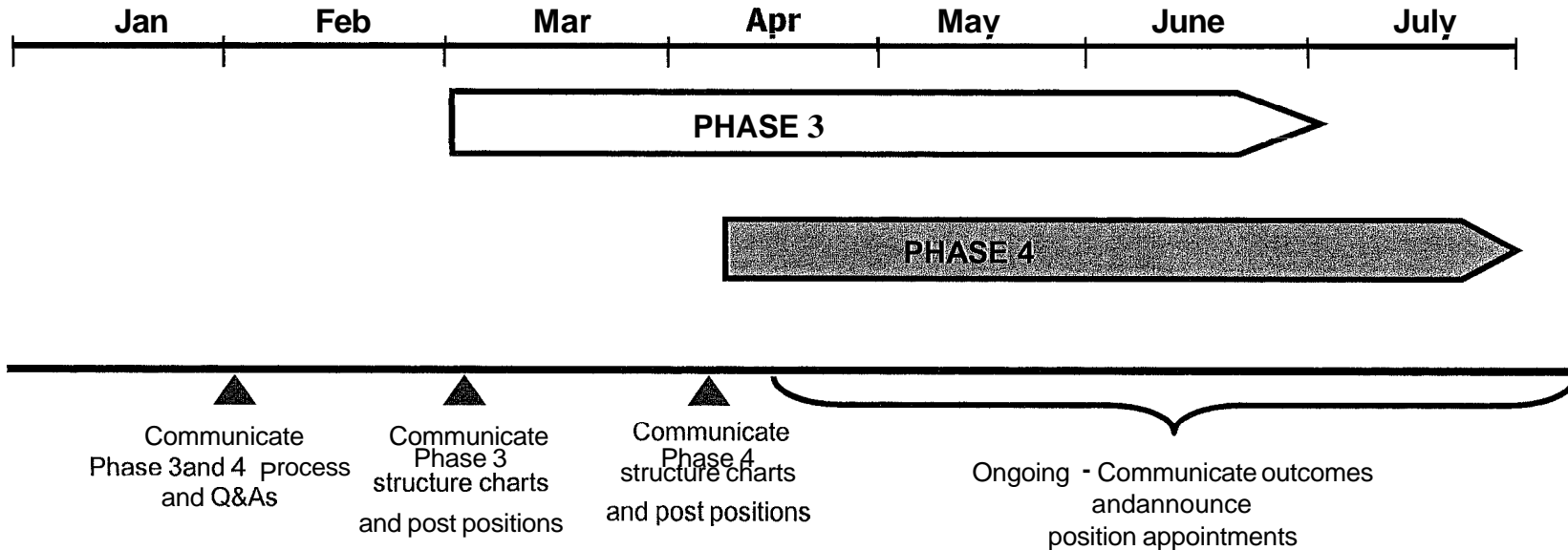
The selection process has been designed to review an individuals' skills, knowledge, experience, and behavioral attributes for the role(s) for which they have applied

Assessment components will be designed for specific roles as follows:

Phase 3 & 4	» Application form » Occupational personality questionnaire » Competency based interview » Analytical problem solving
Phase 3 Only	» Management Simulations
Phase 4 Only	» Technical Interview



Timetable



Key Dates:

1. February 6th – Communicate Phase 3 & 4 process
2. March 3rd – Communicate Phase 3 structure charts
3. March 3rd - Phase 3 postings begin
4. Early to mid April – Communicate Phase 4 structure charts
5. Early to mid April - Phase 4 postings begin

▲ Company-wide Communication





Memo

To	All American Water Employees	From	Jeremy Pelczer
Date	March 3, 2004	Phone	856.346.8302
subject	Organization Restructuring - Phase 3	Fax	856.346.8300

Dear Colleague,

Since my February 6 communication there has been a tremendous amount of work undertaken in preparation for today's announcement. This is truly a complex process, yet those involved have enabled me to fulfill my commitment to get the next update out by March 3, and this announcement covers the majority of positions that will be included in Phase 3.

Our decisions on restructuring are being driven by a number of basic principles, which were first communicated in my Phase 1 announcement. Those principles are important, and worth repeating here:

- Create a greater customer service and performance culture
- Accelerate business growth
- Develop common processes and continue to enhance standards
- Pursue efficiency in the way we work while maintaining our operational integrity

We have sought to ensure the new structure charts exemplify these principles, plus the Business Model principles recently communicated. These principles reflect the need for delivery and accountability at the business unit and regional level with the Business Center role focused on challenge and support, undertaking an enabling role via sound policies and strategy and appropriate governance. Our shared services functions will serve a delivery role for those activities which can be efficiently consolidated.

In my February 6 communication, I informed you that Phases 3 and 4 would involve about 1,800 management and supervisory positions. We have attempted to include as many of the affected Phase 3 positions as possible in today's communication. Yet, in spite of our efforts, there are some positions that we are unable to include today because they require further analysis. Those are generally in the areas of the Finance and Legal functions at the Center, Shared Services, Laboratory, Customer Center and Information Technology Services. We will announce the Center's Finance and Legal structures by March 10.

Now that we have completed the decisions about what role the Business Center will play and what the role of the Regions will be, we need to re-examine what those changes mean to our shared services activities. That examination will be completed by April 30, and will be communicated by May 11. I expect we will find some work previously performed in other areas will need to be performed in our shared services centers. We may also identify certain work that has been performed in our shared services centers that can be performed in another location.

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Memo

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I apologize if you work in these areas and I have extended the uncertainty, but I want to get it right and take proper "soundings" across the business before reaching final decisions.

We are also now able to focus more specifically on the transition of our U.S. Operations and Management and military contracts to the four regions. A transition plan is being developed for each individual contract to ensure we maintain business integrity, and continue to provide the level of customer service and quality we have committed to. As the transition process continues, and our restructuring progresses, we will also continue to examine the support structure that exists at American Water Services to be sure we maintain only the services necessary to support the long term business needs. I expect to provide more information on this part of our restructuring by May 11.

I realize there is a lot of information being covered today. To provide further explanation of the organization design and timetable I have attached several charts. What is included in this pack are:

- Structure charts for three regions, excluding Northeast
- New Business Center structure charts
- Process slides
- Detailed Q & A

You might recognize the organization charts from my February 6 communication. These charts have been updated, and set out more details of how the selection process will work going forward. As you review the structure, please allow yourself time to digest the new design and the new roles. There may be different terms than you are used to, so please don't be alarmed if you don't see your current activity on your first pass. Given the need to align a variety of terms and titles you may not immediately recognize some of the roles. I recommend that you review the role postings and descriptions to fully understand how the new organization works.

In addition to the charts, I am enclosing a Q&A document that is intended to answer some of the questions I think you might have. We have used some of the Q&A from the letsachieveit@amwater.com site, where there has been some excellent questions received to date. If you have any questions that are not covered in this communication packet, I hope you will raise them with your line manager, communication manager or human resources manager. If you have supervisory responsibility, I would encourage you to use this information to discuss with your team. Any feedback you may have can be submitted to our email site, letsachieveit@amwater.com. We welcome your feedback and will be certain to reply.



Memo

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Given the depth and complexity of Phase 3, I anticipate more questions than we received from previous announcements. I will continue to target to respond to your questions within a week – but please give it 10 working days before you follow up. Beyond this, you deserve and will get a response and I am happy to be notified personally of any delayed responses beyond this time.

I am aware of how anxious you have been to receive this announcement. I hope the information contained here will help to clarify the direction of the business. We are committed to work with individuals where there is an opportunity to redeploy them in new roles. At the same time, I realize some good people will be leaving our business. While this restructuring is the right thing to do for our business and our customers, I am determined those who leave be treated with proper dignity and respect.

I remain committed to managing through the current uncertainty as fast as I can within a context of an open and fair process.

As always, thank you for your patience, understanding and support,

Jeremy Pelczer
President & CEO
American Water

March 3, 2004



Phases 3 Announcement – Questions & Answers

1) Q: It appears some of the details about the selection process communicated on February 6th are now changing. Can you please explain what those changes are?

A: Yes. Now that we have a much clearer and deeper picture of our organization structure, and the number of positions which are affected by the restructuring process, we can be more specific about some of the details of the selection process. Today we are communicating the Phase 3 organization design along with the first group of postings. By **March 10th** we will post additional business center functional structure charts and post the roles associated with the functions. The remaining Phase 3 postings will be announced on **April 14th**. We plan to confirm the Phase 4 organization design and posting for Phase 4 roles will occur on **April 28th**.

2) Q: It also appears as if some of the appointments confirmed in Phase 2 are now being changed. Why is that?

A: The process of designing a structure for an organization is not an exact science and is an evolutionary process. As we have progressed through the process it has become clearer what the needs of the organization truly are. We started with a review of the Regions and then more recently focused on the functions at the Center in Voothees. New information has had an impact on a handful of our employees who were appointed in earlier phases. Our intention throughout the process has been to provide certainty to individuals. We aim to avoid any further situations where people have been appointed and then become impacted by later changes that occur shortly afterwards.

3) Q: What is meant by positions that "materially change"?

A. If a position has "materially changed," it means that the job responsibilities associated with the position have been enhanced, reduced or changed in a significant way. For example; if the technical skills required to do the job have changed; the scope of management responsibilities have expanded; or the job's responsibilities have been divided amongst a number of other roles. Roles which have not been materially changed will not be posted. Employees who are incumbents of positions that will not require posting will be so informed by their supervisor.

4) Q. Previous communications stated that positions which are not materially changed will not be included in the position postings and incumbents will not be asked to apply for their own jobs. By following this approach, are we not running the risk of leaving an incumbent in place who may be there "not on the basis of merit"?

A: We want to have an open process for vacant roles. A role is considered vacant if it is a new job or an existing job that has materially changed. Positions that are unchanged are not being advertised. If we have individuals in those unchanged roles that are not meeting our standards, we will manage them through the performance management process - not this selection process.



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5) Q: What weight will be placed on diversity as selections are made?

A: Diversity is important to American Water and a significant part of our values. As a part of our current business strategy, we will continue to ensure there are no workplace barriers across race, gender, sexual orientation, age, hierarchy, country of origin, spiritual practice, education, geography and union representation. The selection process provides objective data that drives our decision making. When we recruit externally we also use an objective, merit based selection process. We also proactively seek diverse candidates in the external job market to consider. We are carefully monitoring our selection decisions and candidate pools to ensure that we are supporting our diversity goals and vision.

6) Q: I am aware that a number of employees were involved in the mapping of the "as is" processes to the "to be" processes. How has this work been linked to the organization structure published in today's announcement?

A: While designing the organization structure, we have firmly had in our minds the work done on the mapping of the "to be" processes which occurred at the end of last year. The confidentiality of the organization structure work has limited the numbers involved to a much greater extent than was possible under the work on the processes. The common themes between the work on the processes and the organization are the principles outlined in Jeremy Pelczer's covering note which include the recently published business principles. Now that the organization structure has been rolled out in this announcement, there will be an opportunity to involve more individuals to ensure even more alignment between the excellent work undertaken on the processes and the organization structure announced today.

7) Q: With recent focus on leadership, communication, and reorganization, what are we doing to ensure our organization is more diverse?

A: We have a long-term commitment to diversity as part of our business strategy. This includes supporting the role of the Diversity Council that is made up of people across race, gender, sexual orientation, age, hierarchy, country of origin, spiritual practices, education, geographic location and union representation. Recently, Jeremy Pelczer spent 1.5 days with the Diversity Council and committed to: EMT development in diversity; support to a diversity action plan; and to continue receiving coaching for his own personal development in the area of diversity. More detail on our plans and the progress we are making to promote a diverse workplace will be communicated in the coming months.

9) Q: Will payment for earned and accrued vacation be paid in addition to severance for employees who involuntarily leave the Company as a result of the restructuring?

A: Yes. Earned and accrued vacation will be paid out in addition to the enhanced severance package.

10) Q: For those employees who met the retirement eligibility at the time of acquisition (age 55 plus years of service equal to 70), if the employee is not offered a position through the application process or otherwise, must they take early retirement?



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A: No. The employee is not required to take early retirement. The individual may simply leave the company as terminated vested rather than retire early.

11) Q: If an employee is not required to take early retirement, how will his/her health benefits be handled?

A: Individuals eligible to retire on the day of acquisition (rule of 70) who elect to retire early or remain until normal retirement will be eligible for the retiree health benefit commitment made in the purchase and sale agreement. Individuals eligible to retire on the day of acquisition who elect to leave the company as a terminated vested will jeopardize their right to the company retiree health benefit commitment made in the purchase and sale agreement.

12) Q: If the employee is offered a position but does not wish to stay with the company, must they elect to retire?

A: If an employee is confirmed in an unchanged role or is offered a different position when their existing position will not be eliminated, and the employee does not wish to remain with the company, they would not be eligible for a severance package. The employee would not be required to retire, but could leave the company as a terminated vested employee.

13) Q: If an employee is informed that his current position is eliminated, and the employee has met the retirement eligibility for health care benefits at the time of the acquisition (age 55, plus years of **service** equal to 70) and is unsuccessful in obtaining a new position or, is not offered a position under the restructure, and decides to take early retirement; will that employee receive the retiree health care benefit, as agreed to in the "Purchase and Sale Agreement" and the enhanced severance package?

A: Yes. Any employee who was eligible to retire on the date of the acquisition, and who decides to retire from employment will be eligible to receive the retiree health care benefit committed in the purchase and sale agreement. Employees who are displaced as a result of the restructuring will also be eligible to receive the enhanced severance package.

14) Q: How will the administrative support positions be addressed in the ongoing restructuring?

A: Each of the regions will be responsible for determining which of their administrative support positions are impacted by the restructuring. Each region will then post the affected positions and manage a process for assessing applicants. Some of the Business Center administrative support positions that are affected by the restructuring are being posted today so that any interested applicants from within the organization may apply. The Regions and the Corporate Center will not be using PDI to assess administrative support employees. A more appropriate assessment process will be used to accommodate the individual roles involved.

15) Q: Is it possible for employees to express interest in more than one posted position?

A: Yes. However, it is important that each employee be realistic about their interests, ability and capability to meet the requirements of any job for which an interest is expressed.



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Much work has gone into defining the new roles so that prospective applicants can clearly understand what will be expected of them. There will be an initial shortlisting before candidates enter the assessment process.

16) Q. Will all of the positions that are posted be appointed from within the existing employee base?

A. Some posted positions may not be able to be filled by existing employees given the specialized requirements of the role. We have indicated throughout this process the importance of appointing the right people to the right position. All internal applicants will receive confirmation of whether they have been shortlisted. We will advise internal candidates when we are commencing an external recruitment process.

17) Q. When will we be able to see the compensation that applies to the new positions?

A. Our goal is to have complete information about each position, including titles and salaries, available by the time offers are made to individuals. In that way, employees will be able to fully consider the roles and responsibilities, as well as compensation in making their decision.

18) Q. How will the salaries for the new positions be determined?

A. Each of the positions is being compared with comparable positions in the market place. We are using an expert consulting firm, experienced in this activity, to assist us. Once we have the relevant data, we will review each person we appoint on an individual basis.

19) Q. If an individual is unable to retain their existing position, but is successful in applying for a new position that carries a lower salary, what will be the impact on the employee?

A: We will "market price" each position and aim to compensate individuals in line with the market. As we have done with Phase 2 appointees we will work with each individual to transition them from their previous (higher) salary to the appropriate salary for their new position. Each case will be reviewed on its merits.

20) Q. If I have been assessed in Phase 2 do I need to be re-assessed if I apply for one of the Phase 3 positions?

A: The Phase 3 assessment process will depend on the level and type of role you are assessed for. In phase 3 all shortlisted candidates will be invited to an interview and then the best candidates put forward to the assessment managed by our consulting partners, typically PDI. Candidates who have been assessed by PDI in Phase 1 or 2 will not be re-assessed unless the role is very different to those they originally applied for. We will be able to fairly compare results of assessments by PDI between candidates even if they were assessed at different phases.

21) Q. What are the proposed changes, if any, to health insurance benefits as applicable to current employees and retirees. This is of great concern to all employees who are wondering about not only the future of the company but their future as well.

A. From time to time every Company examines the full range of its benefit programs to ensure they are comparable to other like businesses. American Water is examining its

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benefit programs and will complete a strategic review by the end of the year. No decisions have been made yet and our goal is to provide benefits which attract and retain talent, are market priced, and are economically sustainable for the company. Regarding health benefits for individuals who were retired on the date of merger, or were eligible to retire (rule of 70) on that date, there will be no change to the commitment made in the purchase and sale agreement.

22) Q: I do realize that with the restructuring process there is no way of knowing if a new position will be added to any district. As positions are posted on the company's "system-wide posting database", will ALL employees have an opportunity to apply for open positions?

A: As each job opening is advertised, position requirements and responsibilities will be included. Any employee who meets those requirements and is interested in and capable of fulfilling the responsibilities, is encouraged to apply for consideration. Employees should carefully consider if they are willing to relocate. Employees who are in non-management roles are eligible to apply for posted supervisory positions if they believe they meet the posted position requirements.

Managers within each location, including the non regulated business in AWS, are asked to distribute hard copies of any company-wide communication to their teams if they do not have regular access to American Water's Lotus Notes workspace and, consequently, the System-Wide Staffing database or internal email systems. Therefore, you should be receiving these notices. If you have not seen them, I encourage you to contact your local Human Resources Manager.

23) Q: Earlier "Shaping our Future... website correspondence indicated that we could get copies of the proposed severance package from the HR department. We have been provided a one-page summary of the severance program but not the severance agreement. Can we get a copy of the severance agreement for review?

A: A copy of the enhanced severance agreement can be obtained from your local Human Resources Manager.

24) Q: If you apply for a position and then in a later Phase you find a job that is better suited to you, can you withdraw your original application and apply for the later Phase job? Will it be held against you if you do so?

A: If an employee applies for a position because they have a genuine interest in it and consider themselves to be a "good fit," and they decide not to pursue it prior to being appointed to the new role they should contact their local Human Resources Manager to withdraw their application. There will be no adverse consequence in doing so.

25) Q: Earlier communications were unclear as to whether the Northeast region would be involved in the Phase 3 and 4 restructuring. What is the answer to that question?

A: We originally intended that the Northeast Region restructuring accomplished during 2003 would satisfy the objectives of the organization going forward. However, it is now apparent that the business process mapping and business model principles which have been developed since September 2003 require that we re-examine certain Northeast region activities and roles. In preparing our final regional structure, we have learned much from the model developed in the Northeast Region. We intend to minimize any

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impact to individuals while we align the Northeast region with the same organizational design principles as the other three regions. Over the coming weeks and months, we will be reviewing the Northeast Region, commencing with the engineering functions. Our goals is to create a consolidated Center of Excellence in the Region which capitalizes on the relative capabilities, and strengths of the Center and region's engineering teams.

26)Q: Are each of the 4 regions going to be identical in terms of the organizational structure and position roles and responsibilities?

A: The organization design principles are the same for each region. We have attempted to align the regional structures to the maximum extent possible. However, there are differences between the regions, for example to do with geography and types of operating systems that exist across the organization, so there may be some instances where one region reflects some slight difference from other regions in order to accommodate those unique circumstances.

27)Q: The terms "roles" and "post" are used in the announcement and in the postings. Can you please clarify the definition of those terms?

A: The term "role" refers to the type of job (e.g. Network Director). 'Post' is a specific job (e.g. Network Director - Western region). In other words, there may be more than one post for certain roles within the organization. In order to improve the efficiency and effectiveness of the selection process for these positions we have designed the posting process so that each post will be identified. By doing so, employees will be able to specify not only the role they are interested in but also which post so it is clear whether there is a need to relocate at the time the employee has expressed interest.

29) Q: There seem to be different approaches being taken for different functional areas. Can you please explain the logic for the differences?

A: The organization design has been guided by a number of principles, which have been described in today's and earlier communications. In finalizing the structure of various functions we considered not only the approach to delivering the service, but also whether or not the service was most effectively delivered at a local business unit level or somewhere else in the organization. An example would be the legal function where there will be a "Center of Excellence" located in the Regional Center in Voorhees to support labor and employment law matters. On the other hand, we have determined that the best way to deliver engineering services is through the regional teams. Building regional capabilities in engineering will also prepare us for the growth opportunities that we believe exist in the US market.

30) Q: Beyond the routine positions that will be required for the business on an ongoing basis, how are the special projects being handled, and what are the opportunities for employees on those project teams?

A: For many years, American Water employees have been extremely supportive in volunteering for roles on special project teams. We are quickly organizing to begin our Standardized Technology Enabling Process Project (STEP) that will enable us to make better use of technology in improving the efficiency and effectiveness of our service delivery. The STEP project will require five posts, which we would like to fill from our existing employees. The posts will be project posts, which means they are for a fixed time period. However, in considering whether applying for one of these posts is in your

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best interest, you may want to think of the increased development and the opportunities to work across the business that comes from being involved in such a project. Employees who serve on special projects become the most knowledgeable in the business on those project activities, so they are equally valuable once the project has concluded.

31) Q: What is the role of the Business Center at Voorhees in the new structure?

A: The role of the Business Center is changing, in line with our business principles, from a mixture of governance, policy, strategy, and delivery to a role where the delivery activities migrate to 'shared services' or to the regions. The delivery elements can also be further facilitated by the creation of 'centers of excellence'.

32) Q: What does that mean for the departments such as Engineering at the Business Center in Voorhees?

A: The Voorhees engineering delivery group will transition its activities to the regions, with the exception of a policy/governance activity, which will remain in the Center. Steve Schmitt will project manage the transition, in conjunction with the Regional Service Delivery teams and the heads of engineering when they have been appointed in the Western, Central and Southeastern regions. Part of this transition will include a study to review the opportunities that exist to create a center of excellence in the Northeast region.

33) Q: What is happening to the functions that haven't posted jobs today – Legal and Finance at the Business Center?

A: Further investigation is required to finalize these functions and to review the implication for existing employees in these teams. Communication with the teams will occur early next week with roles being posted on March 10th

34) Q: How can I get any question I have answered?

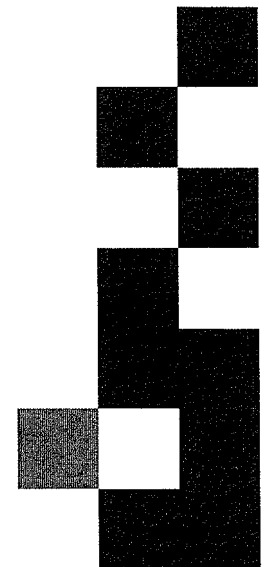
A: Please contact your manager, communication or Human Resource manager with your questions, or email us at letsachieveit@amwater.com with your question. You will get an answer within 10 working days and your questions are valuable to help us get the communication right.



AW Re-Structuring Selection Process – Phase 3

Briefing Pack

March 3, 2004





Aim of this Communication

- Present more detailed regional structures and some of the functional Business Center structures
- Provide further detail around the process and outline timetable for Phase 3 of the selection process
- Provide answers to frequently asked questions (Q&As)
- Inform you of when to expect the next communication and an outline of its contents

If you have any questions, please direct them to your local HR representative or the 'Letsachieveit' email (letsachieveit@amwater.com)