



Phase 3 - Overall Objectives

- Get the right people in the right roles
- Conduct an open, fair and robust selection process
- Position the business to deliver the 2004-2008 business plan
- Complete the management organization structure by end of July 2004
- Maintain organization and culture change momentum





Organization Design Principles

Local businesses will be:

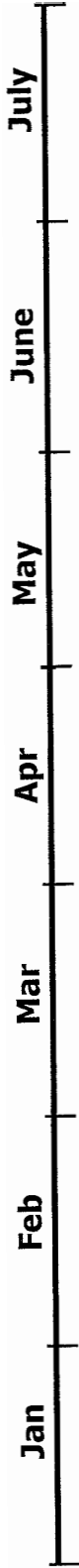
- Delivering services to customers and communities
- Influencing regulators and shaping the market; competing to win
- Functionally designed and driven; with common ways of working
- Leveraging high quality operations and service reputation to accelerate growth
- Integrated horizontally and vertically (functionally driven; reg and non reg; sharing technology and 'know-how', etc.)

What will be different?

- The Regions serve our Customers
- The Center serves our Regions and provides strategy, policy and governance
- We will be held accountable for how we behave and what we deliver
- One team: one culture, one goal



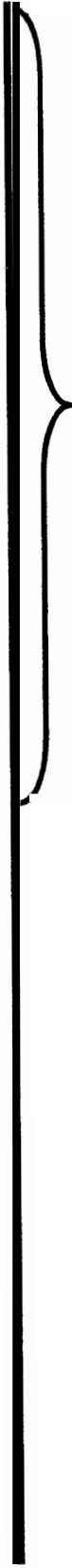
Timetable



PHASE 3 - WAVE 1

PHASE 3 - WAVE 2

PHASE 4



Ongoing - Communicate outcomes and announce management structures

Key Dates:

1. March 3rd - Communicate Phase 3 Organization Design and wave 1 postings
2. March 10th - Post additional Business Center functional structure charts and post roles
3. April 14th - Phase 3, Wave 2 postings
4. 28th April - Communicate Phase 4 organization Design and post Phase 4 roles



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Phase 3 and 4 Scope



Phase 3

Direct reports to Phase 2 appointments and some roles at the next level

Phase 4

Superintendents

Supervisors

Other 'exempt' professional and non-management employees

Within Phase 3 there will be 3 postings:

- March 3rd, March 10th, April 14th

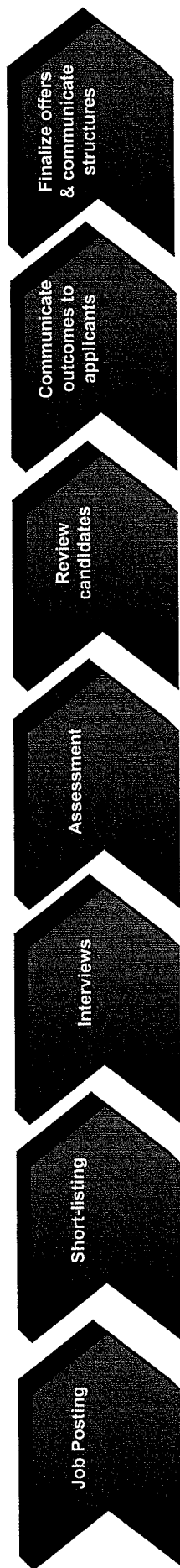
- The March 10th posting will primarily contain thirteen Business Center roles in Legal and Finance



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Phase 3 - Process Overview



- ◆ Three waves of posting
 - March 3rd
 - March 10th
 - April 14th
- ◆ All roles will be posted on the system-wide posting database
- ◆ Applicants will be asked to attach their resume
- ◆ Roles will be posted for one week

- ◆ Hiring managers will short-list candidates within 10 days of the posting close date
- ◆ Outcomes will be communicated to individuals by local HR teams

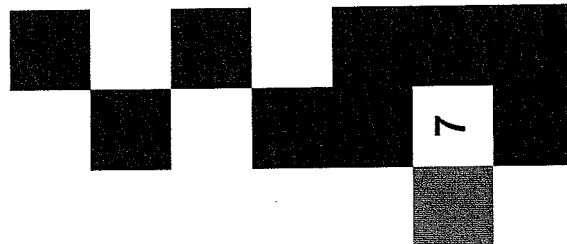
- ◆ Hiring managers will interview short-listed candidates
- ◆ Successful candidates will be identified for assessment

- ◆ Successful candidates will be scheduled for an assessment (at the nearest assessment location) by Business Center HR team
- ◆ Candidates will attend an assessment center

- ◆ Round table discussions will be held with hiring managers, HR and external partners in order to make fair, transparent 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, salary, etc. with candidates and establish transition plans for their new roles
- ◆ Management structures will be communicated with confirmed appointments





Job Posting

- Job posting 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
- There have been some process improvements made to the system-wide job posting database in order to 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 job-posting application





Assessment Process

- The process will be objective, fair and open
- The selection process has been designed to capture an individuals' skills, knowledge and experience against the required competencies for the role(s) for which they have applied
- Depending on the specific role, assessment components will vary. When you are selected for assessment, we will provide details of the specific assessment process for the role you have applied; i.e. some jobs are non technical; some require more leadership skills. The assessment process is relevant to the roles requirements





Future Communications

- The next communications will be distributed on March 10th and April 14th
- The next communication will include:
 - » Additional Business Center function charts and postings – March 10th
 - » Phase 3, Wave 2 posting details – April 14th
 - » More Q&As – April 14th



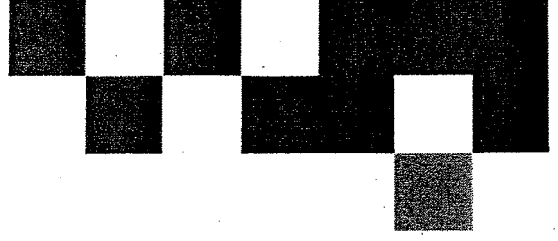
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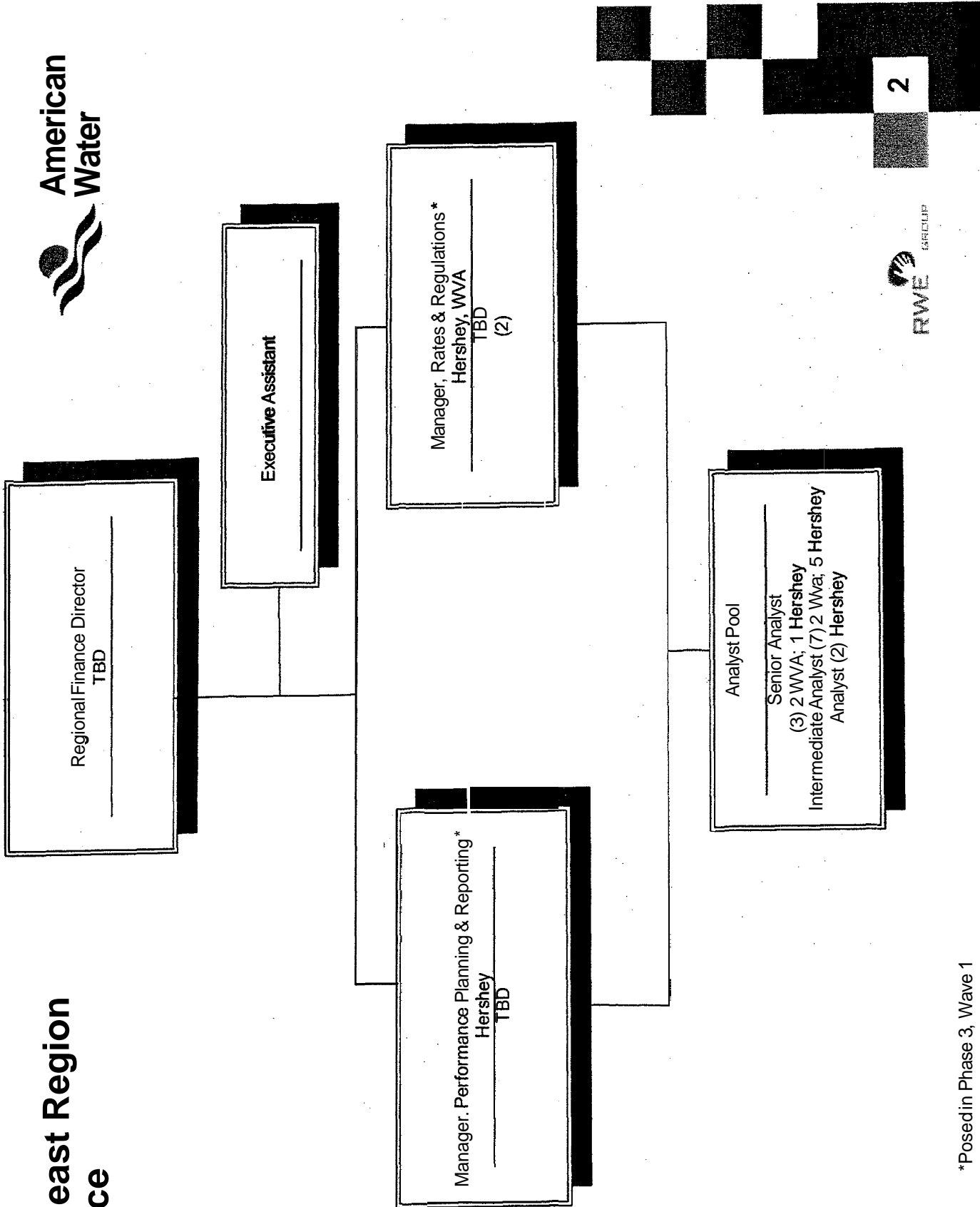
Southeastern Region

Structure Charts

March 3, 2004



Southeast Region Finance



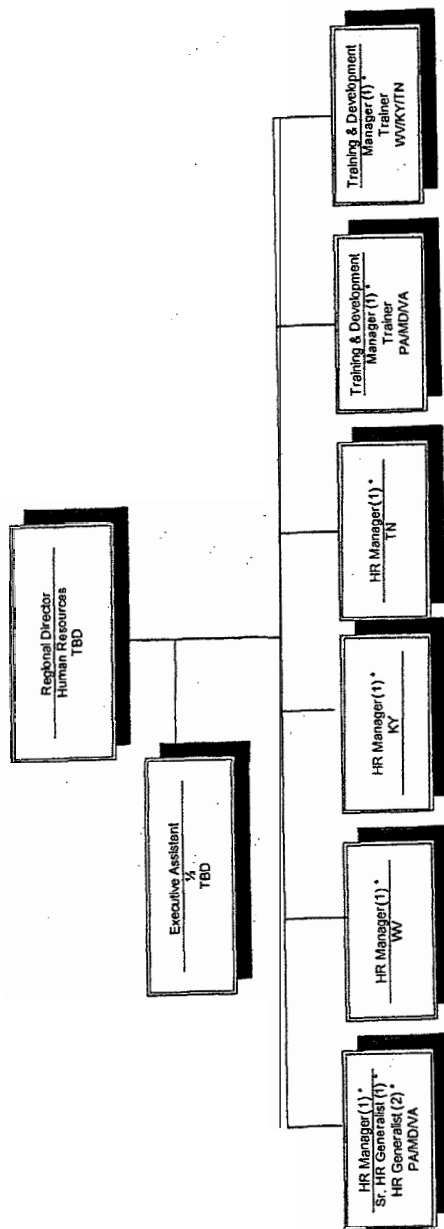
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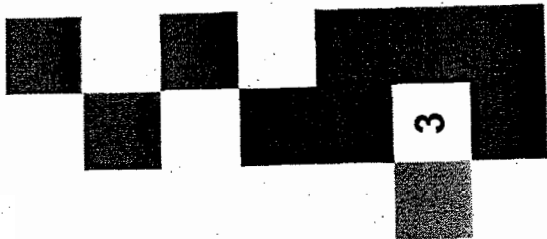
*Posed in Phase 3, Wave 1



Southeast Region - Human Resources

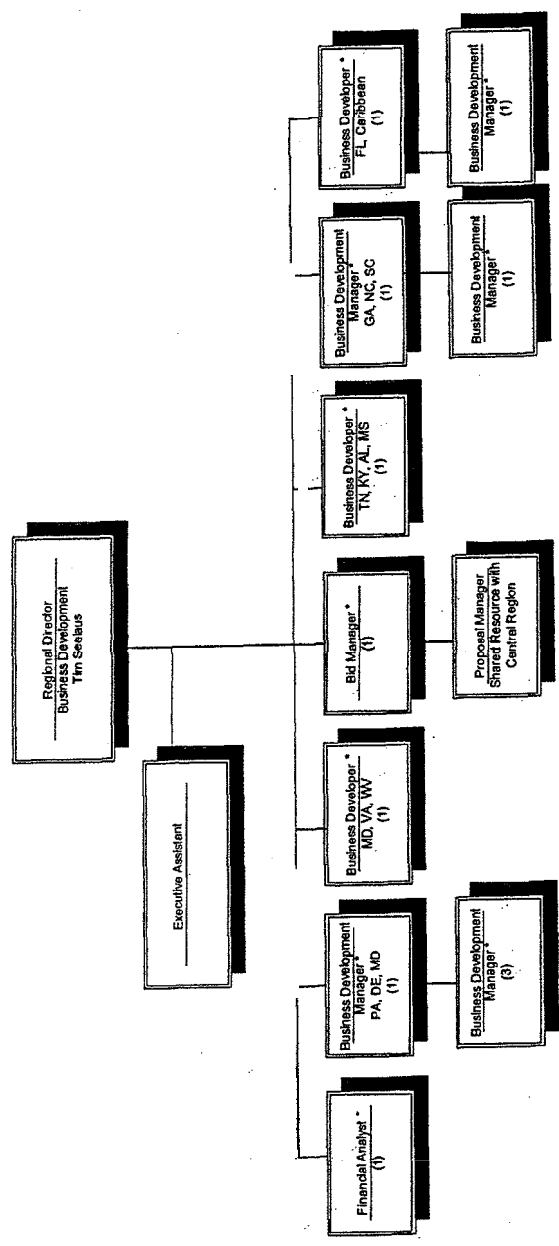


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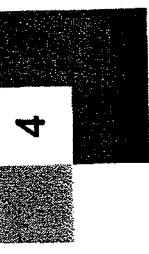




Southeast Region - Business Development

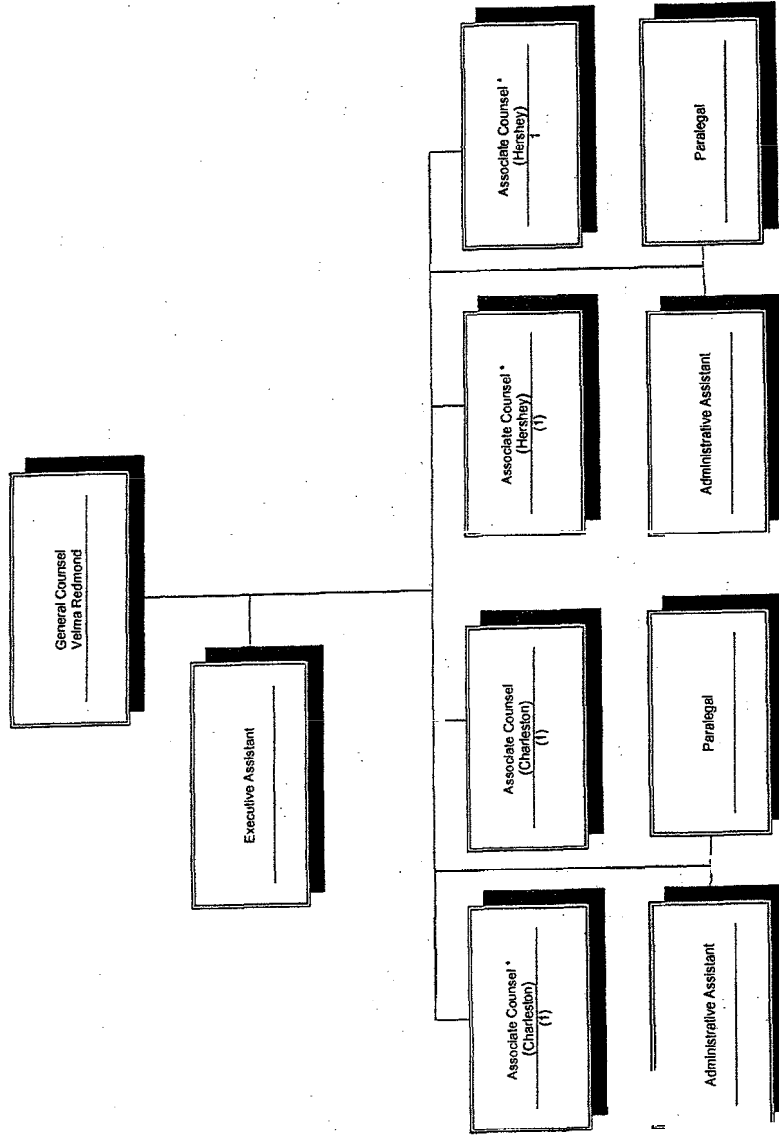


*Posted on Phase 3, Wave 1





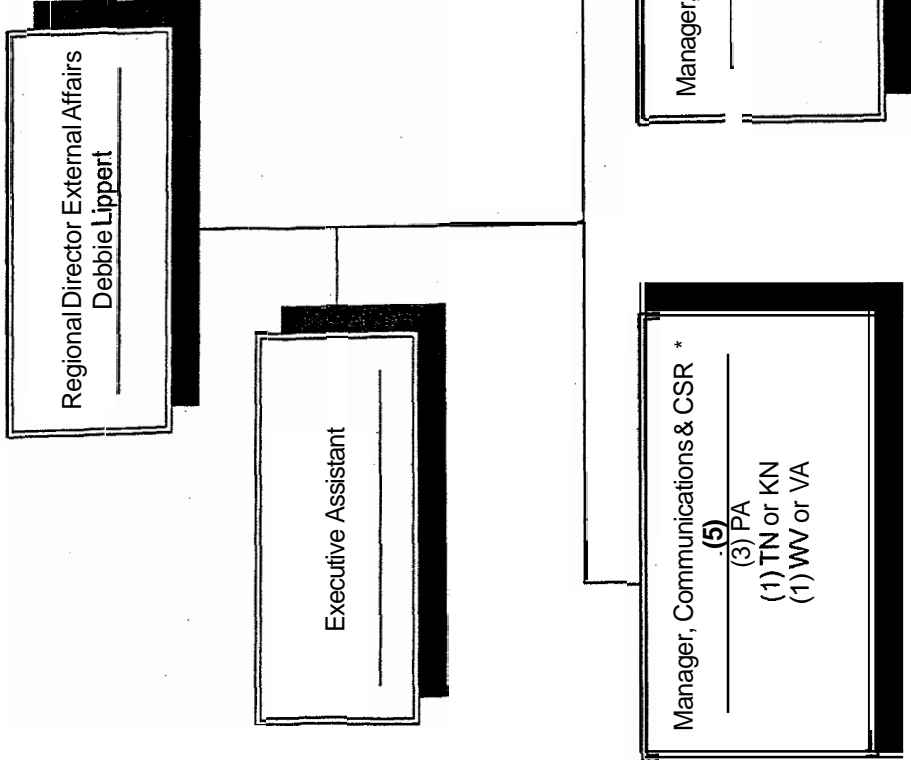
Southeast Region - Legal



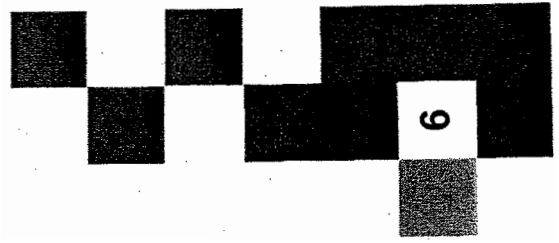
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Southeast Region - External Affairs

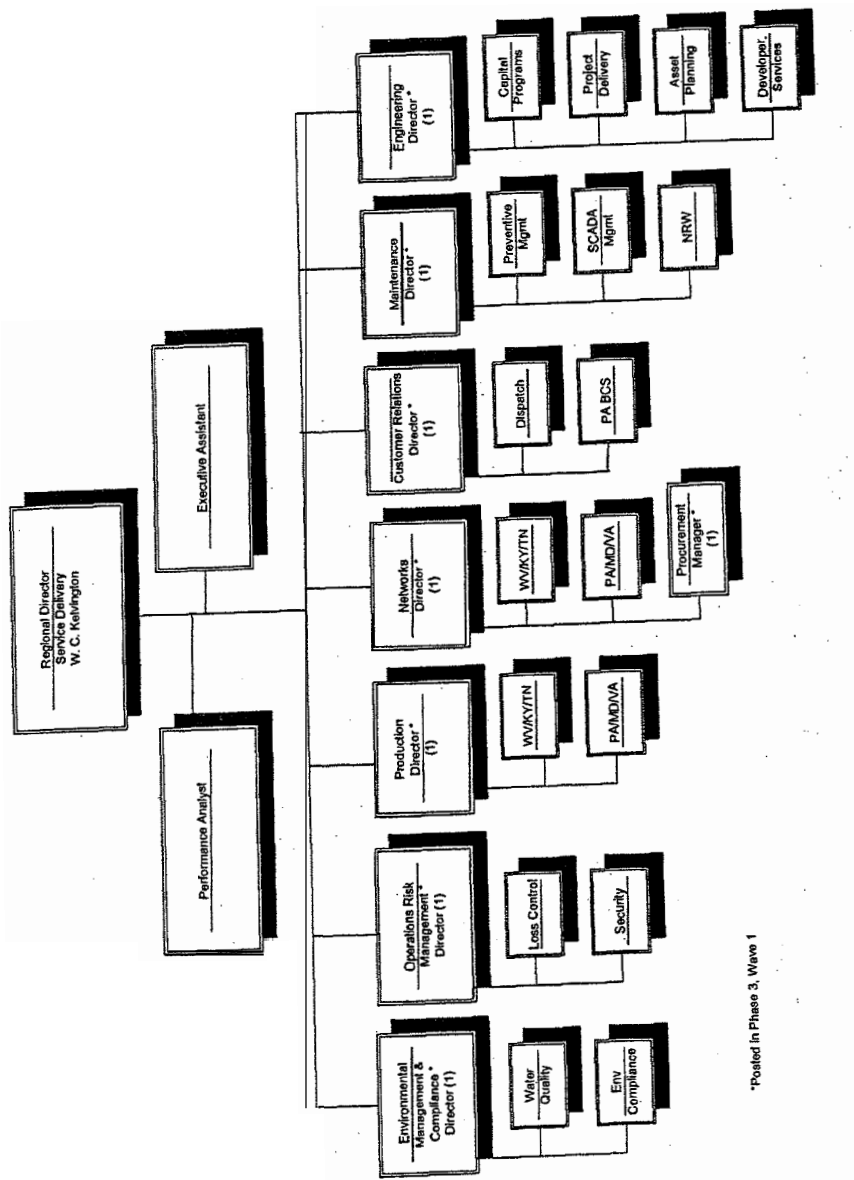


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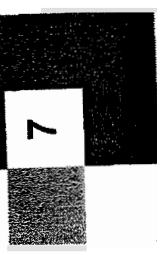




Southeast Region - Service Delivery



*Posted in Phase 3, Wave 1

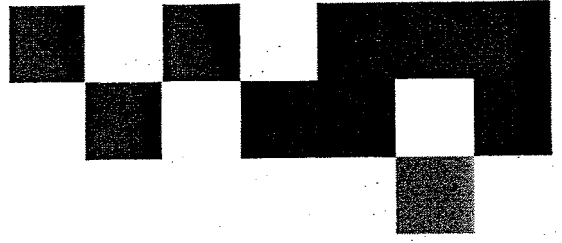




Business Center

Structure Charts

March 3, 2004





Business Center - Regulatory

Mick Carmed
VP Regulatory & Contract
Performance

Patricia Platek
Executive Secretary

CDP & Projects
(50%)

Paul G. Foran
Regulatory Programs

Thomas G. McKittrick
Regulatory Planning &
Performance

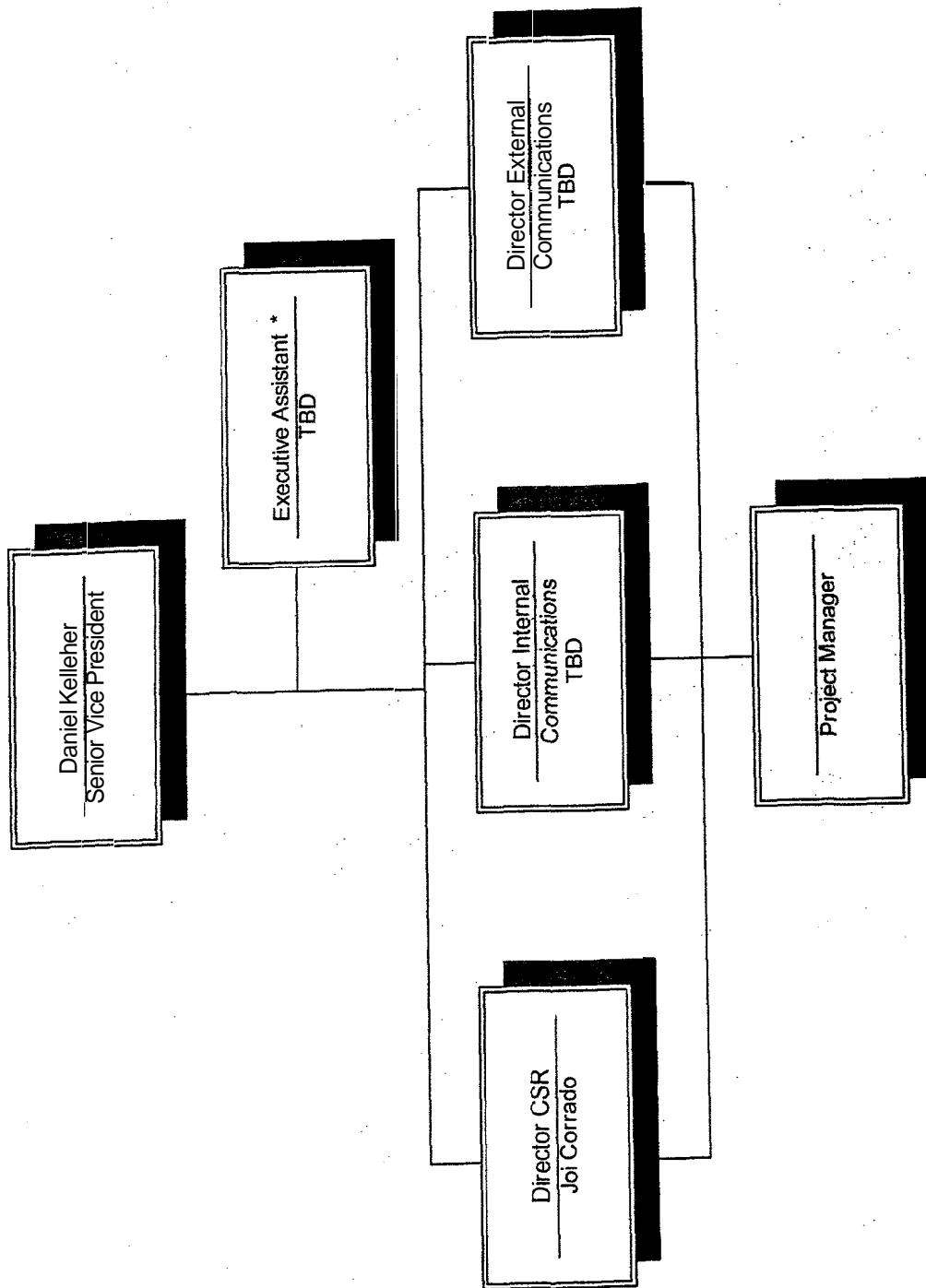
Jim Harrison
Rate Support

Posted in Phase 3, Wave 1 under Business Development





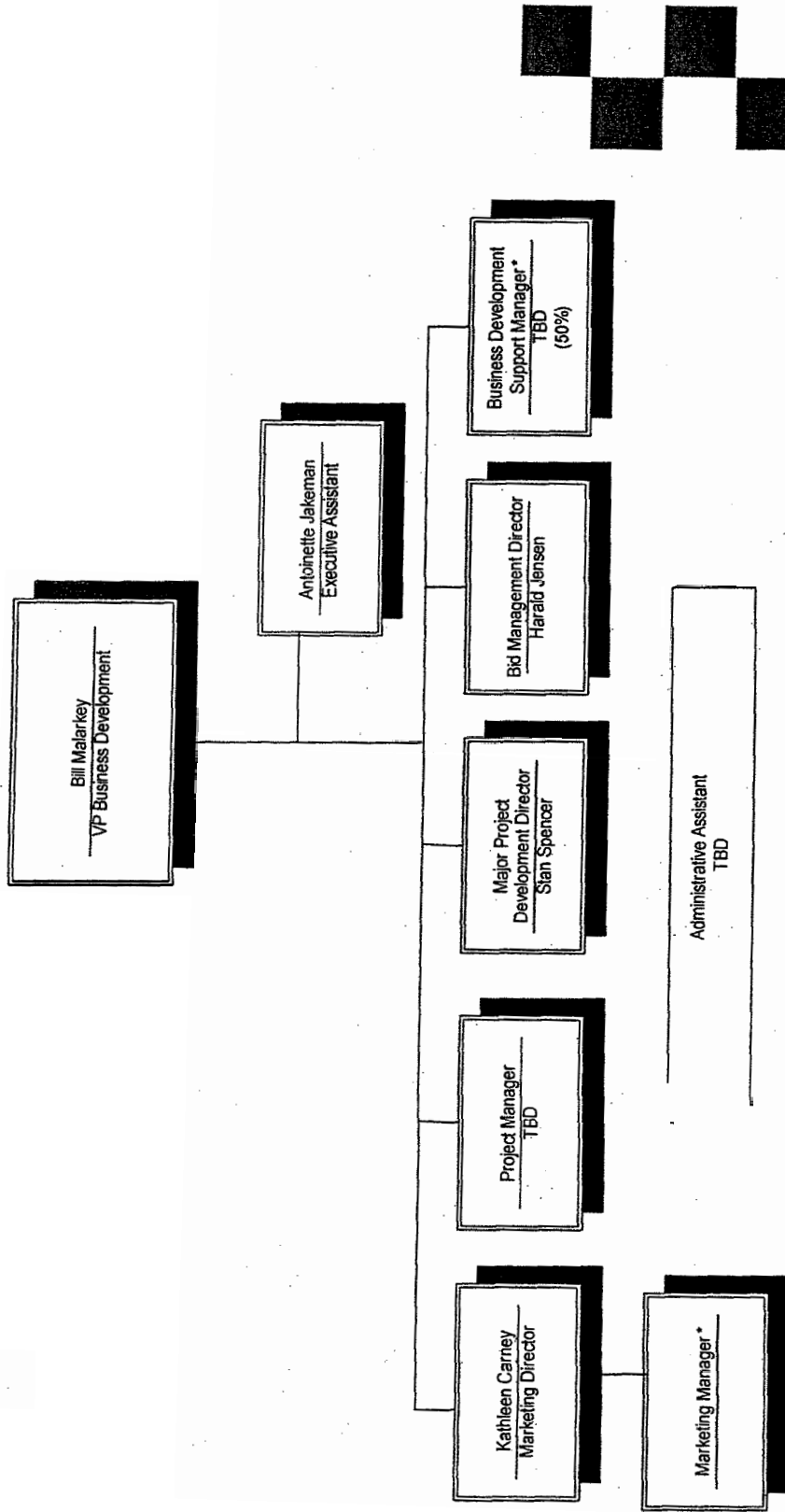
Business Center - External Affairs



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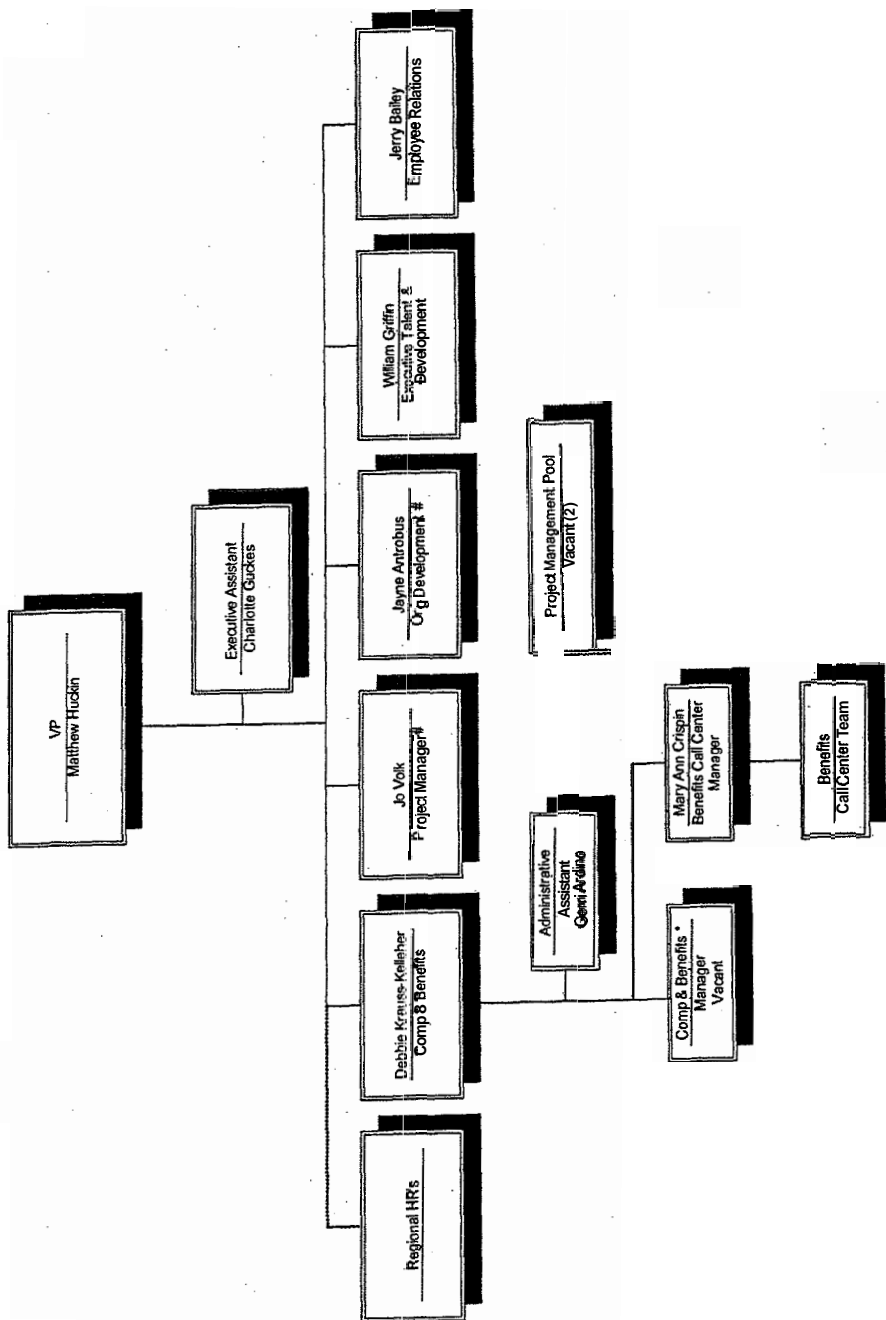
Business Center – Business Development



*Posted in Phase 3, Wave 1



Business Center – Human Resources



Fixed team project roles

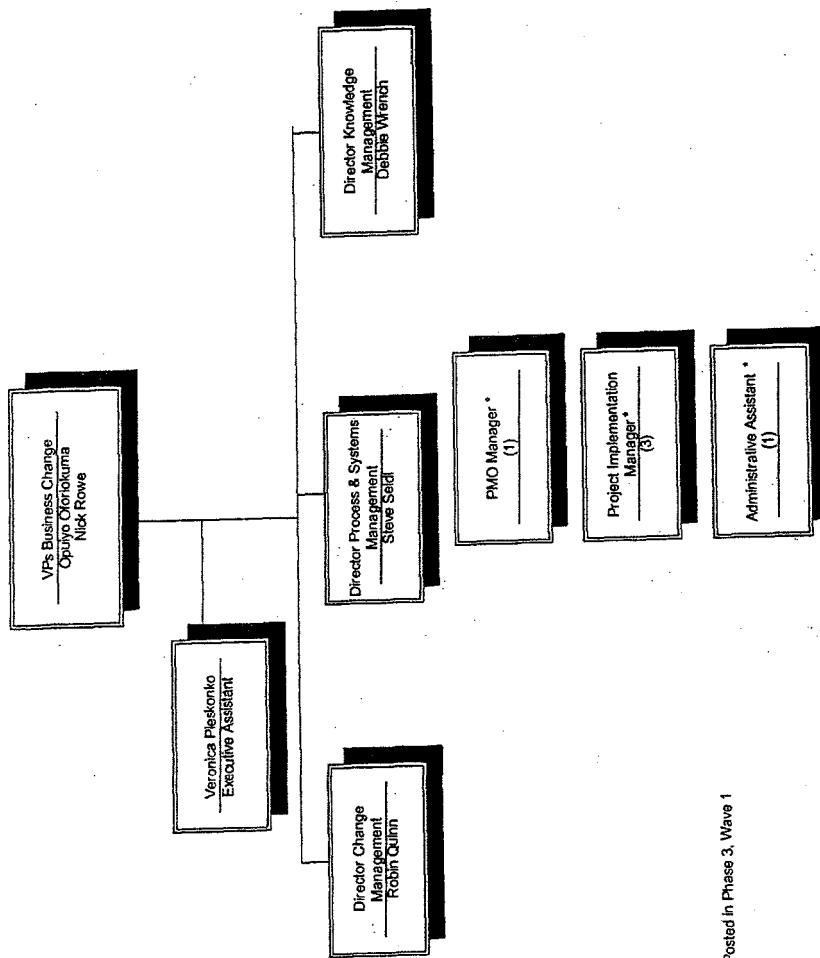
* Posted in Phase 3, Wave 1



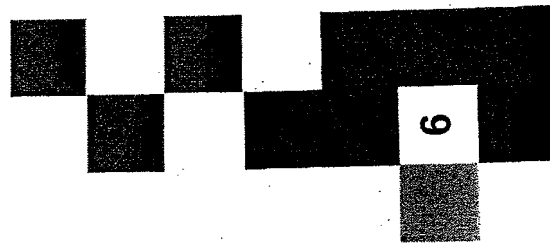
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Business Center - Business Change

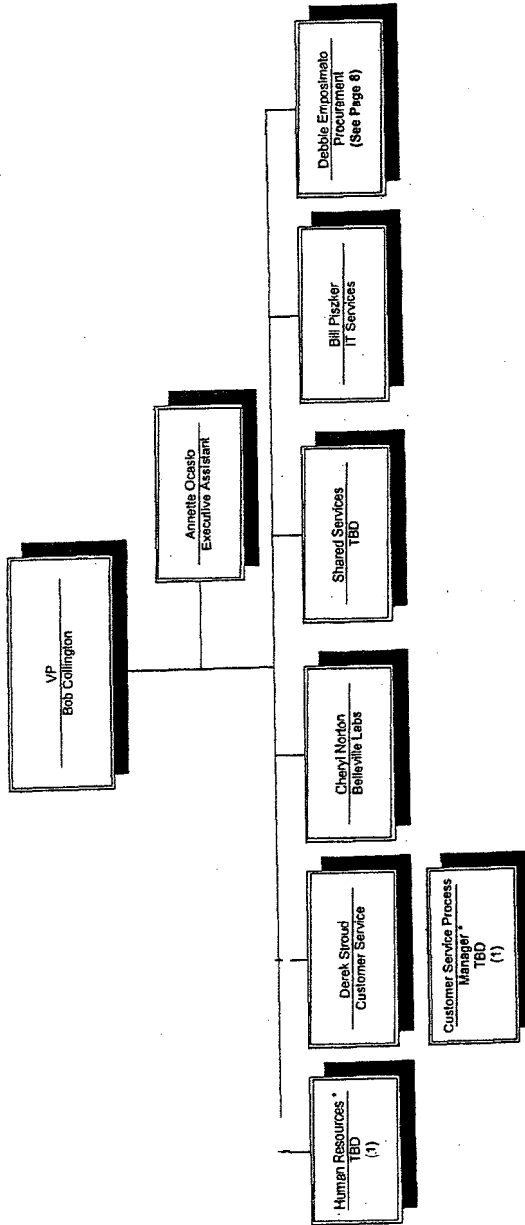


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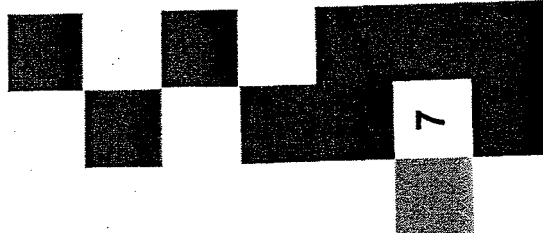




Business Center – Customer & Shared Services

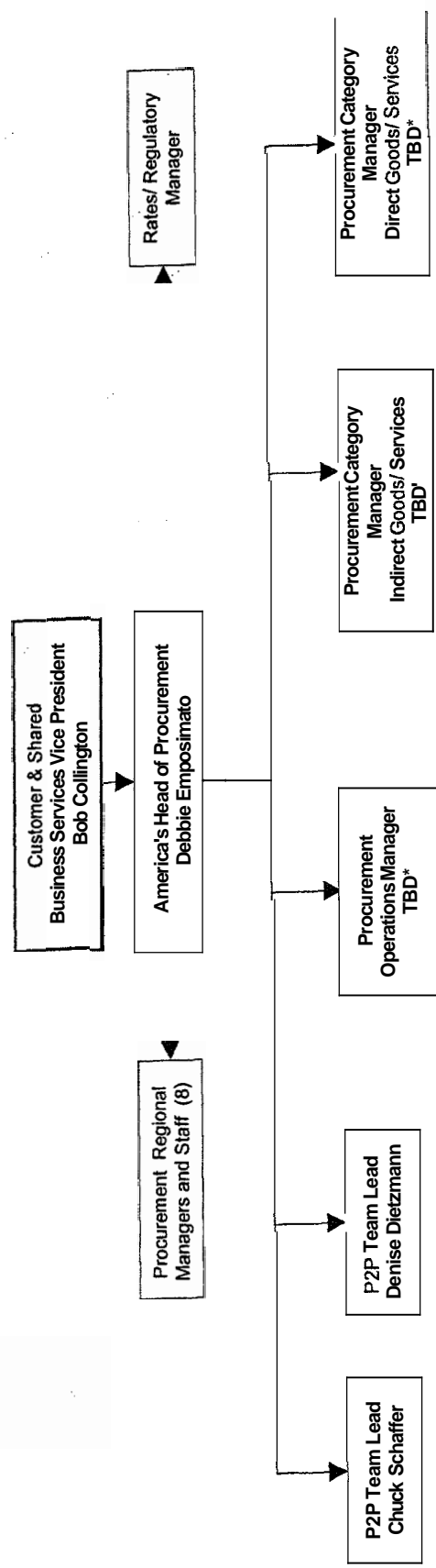


Notes: All functions to be reviewed by end April, 2004
*Posted in Phase 3, Wave 1

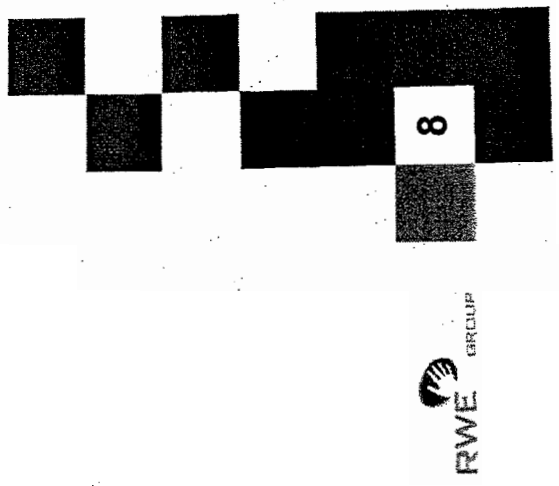




Shared Services - Procurement

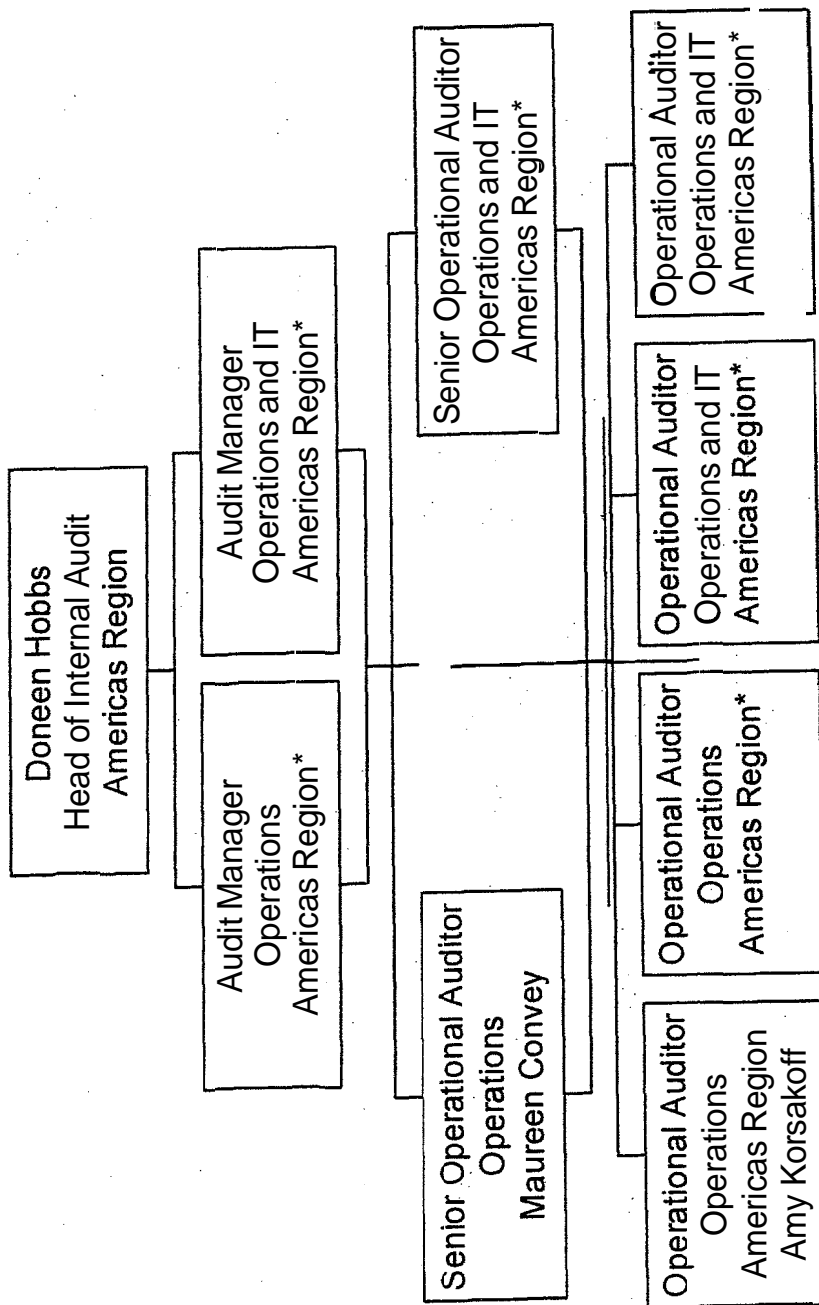


* Posted in Phase 3, Wave I

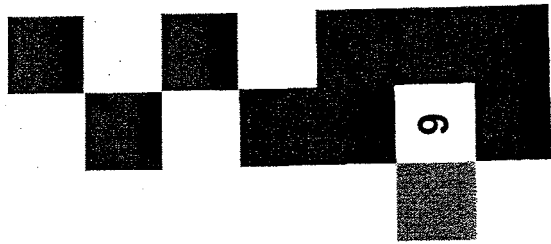




Business Center - Internal Audit

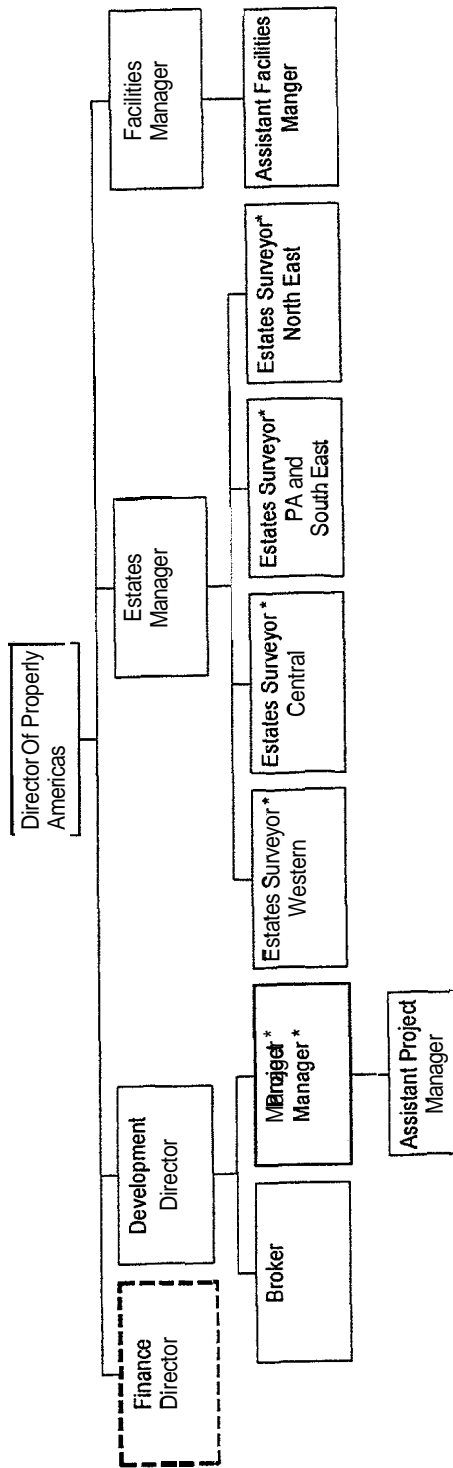


* Posted in Phase 3, Wave ■





Business Center - Property



*Posted Position in Phase 3, Wave 1





Memo

To All American Water Employees From Jeremy Pelczer

Date March 10, 2004 Phone 856.346.8302

Subject Organization Restructuring – Phase 3 Fax 856.346.8300

Dear Colleague,

In my March 3 letter to you about the Phase 3 announcement I said that there remained some parts of the business that required further analysis before they could be announced. Since that time a significant amount of work has been done for today's announcement regarding the Finance, Legal and Operational & Investment Performance functions at the Business Center.

Our decisions on restructuring the business are driven by our goal to:

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

The Business Center at Voorhees has been fundamentally reviewed, with significant input from the Regions, and we have changed the focus to a more strategic, policy, governance and enabling role. As a result, we are transitioning a number of the more 'operational' and delivery focused activities to the Regions and Shared Services. In the coming weeks many of you will be engaged in ensuring that this transition happens in a smooth way and I would like to thank you for your support with this important change, particularly when many of you are facing uncertainty about your own future.

As promised, in my 03.03.04 communication you will find attached the new structure charts for the Business Center functions. In addition there are a number of roles that are posted today which are identified in bold italics on the charts. Please also note that we have updated some of the previous structure charts where changes have been made following feedback on my last communication.

I would like to thank those of you who have provided feedback and raised questions via the letsachieveit@amwater.com web site. We have answered many of your new questions in the attached Q&A and selected a few 'repeats' for clarity.

I would also like to draw your attention to a number of key personnel changes that are being announced today:

Tim Pohl, Vice President, General Counsel and Secretary of American Water will be leaving the company at the end of March 2004. Tim has been invaluable to American Water through a period of unprecedented growth and was a key figure in the

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Memo

Page 2

RWE/Thames transaction. Tim plans to pursue a portfolio of activities in the future, including pro bono legal work, as well as some special projects for American Water.

I am delighted to confirm that Tim will be succeeded as General Counsel by **George Patrick** with effect from April 1st 2004. George is well known to many of you for his legal counsel on mergers, acquisitions and other commercial contracts. Please join me in wishing George every success in his new role.

Joe Hartnett, VP Finance, who played an important role in the Treasury and Financing aspects of American Water's growth and the RWE/Thames Water transaction, will also be leaving the company. Joe will be leaving at the end of September 2004 to pursue other career interests. In the interim, Joe will be supporting John Bigelow in redefining the role of the finance team, and our treasury activities, at the Business Center and transitioning his responsibilities to his successor when identified. The role has been posted today.

*

Over the coming days, members of the Executive Management Team will be attending meetings hosted by your local Leadership team to discuss the business challenges we face, "business model principles", and the restructuring with many of you. Please take advantage of these visits to raise any questions or concerns that you have and to seek real understanding of what we are trying to achieve. These meetings will also provide you with a good opportunity to express your views, and you will find the EMT are receptive to you ideas and suggestions.

I have been looking carefully at your feedback and the business operations and I want to emphasize again that I do understand the impact of the decisions that we have been taking on the lives of everyone in the Company. Tough decisions have been made and more will need to be made, but they have been made after careful thought in order to build a strong and successful business equipped to excel and compete in the long term.

The process of continuing to build an organization that we can remain proud of, and that is an excellent place to work, has to start by ensuring that people who leave the team are treated with dignity and respect. That is certainly my intention and to achieve this I will need your continuing support.

Jeremy Pelczer
President & CEO
American Water

PHASE THREE ANNOUNCEMENT: QUESTIONS & ANSWERS – 03.10.04

1) Q: When will the complete organizational structure 'from top to bottom' be provided to employees across the business?

A: The Central and Western Regions have released draft structure charts, which indicate the likely structure and roles from top to bottom. As the management teams are appointed this work will be finalized and communicated. The Southeast Region plans to provide a similar level of detail on or before April 14th (the date of the next posting). Northeast Region has been reviewing its structure to access with the new business model and regional "strawman" and the first area that will be impacted is the Engineering group. As this review is completed full details will be communicated by April 14th.

2) Q: What is happening to the Engineering Delivery group in the Business Center at Voorhees?

A) The Engineering Delivery group will transition its activities to the Regions and a 'center of excellence' will be created in the Northeast Region. Steve Schmitt is leading the effort to manage this transition with the service delivery teams in the regions. Our goal is to communicate the detail of the structure and the roles as part of the April 14th communication. The roles in the new center of excellence are likely to provide good career opportunities for both the engineering delivery group in Voorhees and the existing engineering group in the Northeast Region. However, there will be an overall reduction in headcount as the two groups are combined.

3) When will these changes be finished?

A) The Phase 3 & 4 restructuring will be completed by the end of July 2004 and by that time all exempt employees should have clarity about their personal position. Most non-exempt employees should know their status by this time too. Where there are parts of the business that require further analysis this will be undertaken in the same way as in Phases 1-4 (i.e. business needs analyzed, structure & roles designed, communication, posting of new & materially changed jobs, selection and appointments)

It is important to recognize that change is on-going, and the organization will continue to evolve. There will continue to be significant positive changes in the business as we invest in new technology, systems and processes over the next two to three years.

4) What progress has been made so far in the change program?

A) Since the program began in September 2003 we have: completed the strategy work; engaged a broad cross section of employees in defining our vision; reshaped the business and appointed a new leadership team; launched the License to Manage program; delivered on our promises with regard to timely communication of the restructuring and selection process; brought the management team and a cross section of employees together at the Atlanta "Let's Achieve It" Conference; completed the business process blueprinting which has become the foundation for the Standardized Technology Enabled Processes project (STEP project) – a major systems investment program; and launched the Business Model Principles which are enabling us to make consistent decisions within the business.

We are on track to achieve our business performance goals to change the culture and create a sustainable winning business.

5)How will we know when we've been successful?

A) We will have created a working environment in which our diverse talents can flourish and in which we consistently meet our customers and communities needs, and when we capitalize on opportunities to grow the business while delivering value to our shareholder

6)Will supervisors that are displaced during the restructuring be given the chance to fill non-supervisory roles (eg. Meter Reader)?

A) In principle all individuals have the opportunity to apply for vacant positions. However, in certain cases these positions are part of a collective bargaining unit and the terms of the collective agreements will be respected.

7)There are a number of British and German managers who have been appointed in the new structure. Has this been at the expense of American Water employees?

A) Expatriate managers provide knowledge, skill and expertise that compliments the capabilities within American Water. The way in which the three cultures, American-British-German have worked together to achieve our common goals has been impressive. The RWE/Thames secondees are here, in nearly every case, on fixed term assignments with an objective to ensure their succession to American Water employees. The majority of the expats will have left the business by the end of 2005. Where ever practical AW employees have been appointed and where permanent positions exist expatriates have had to compete for these roles and go through the selection process in line with their peers. Appointments of managers such as Penny Ross in the Shared Services role have been based on merit. Any AW employee who is interested in an assignment to other parts of the RWE group should contact their local Human Resources manager.

Jeremy Pelczer is committed to building and developing American talent and succession plans for American Water employees.

8)If I was an unsuccessful candidate in Phase 1 & 2 am I going to be seriously considered for a role in Phase 3? How long will the business keep me if I haven't been confirmed in a role?

A) If you meet the requirements for the role then you will be seriously considered by the appointing manager regardless of your status. However, we will paying market salaries for our jobs and cannot carry any additional cost to the business. We will be having candid conversations with individuals on a case by case basis as the short-listing process for the first wave of Phase 3 is completed. We anticipate that all individuals who were assessed in Phase 1 & 2 will have certainty about their future by the end of April.

Our general principle is that once a decision has been made it is in the best interests of both the individual and the business to support their transition out of the business and into the next phase of their career, with outplacement support and so on. The timing of this will depend on individual circumstances.

9)If you work in Kentucky should you be applying for positions elsewhere at this time?

A) If you see opportunities elsewhere in the business that you are interested in and that you believe you meet the requirements for, please apply. Although Kentucky is not included in the current restructuring exercise we do not want good candidates to be excluded from career opportunities which exist elsewhere at this time.

The Leadership team in the Southeastern Region is currently reviewing the implications of Kentucky not currently being included in the restructuring for people in the business and positions that were posted on March 3rd.

10) There have been lots of questions and answers about the enhanced severance terms, retirement benefits and eligibility rulings (e.g. the rule of 70). I am still a little confused about my entitlements and options. How can I have my questions answered in confidence?

- A) You can review the questions and answers that have previously been issued. These are available from your local supervisor, HR manager or Communications manager. You can submit a question to the letsachieveit@amwater.com email address and receive an answer within 10 working days. However, the best way to have your question & any follow-up questions you might have answered is to contact the Benefits Call Center on 866-888-8269.

11) What are the next steps in the selection process and the key dates?

- A) The first posting closed on March 9th. Hiring managers will complete short-listing by March 17th. Regional HR teams will contact individual applicants and let them know the outcome of these decisions. Applicants within the Business Center will be contacted by their local HR team. Those that have been short-listed will be invited to an interview which will be scheduled between March 18th and April 1st. Once the interviews have been completed successful applicants will then be invited by the Business Center HR team to participate in an assessment center at a central location. These centers will last a day and half. After the assessment individuals will be advised of the decision and given feedback.

B) Some decisions feel a bit rushed while others seem to be taking a long time. Have we got the pace right?

- A) Our goal has been, and continues to be, to provide as much certainty as possible as quickly as we can. This is why we are pushing the organizational changes through and why for some people (usually those who are the decision makers) this process can seem to be happening too fast. We are an organization that takes pride in its methodical and analytical approach to decision making and sometimes we are having to make judgements with slightly less information than we are used to in order to maintain our momentum. For many others (usually those waiting to find out 'what it means for me') it can feel very slow and everyday adds to the uncertainty.

We believe that we are getting the balance right between pace, rigor and sensitivity to the people implications. We are interested in hearing your views. Please provide your feedback through either the letsachieveit@amwater.com email address, your local road show meetings with members of the Executive Management Team or your local Communication or HR Manager.

12) In your last communication you mentioned that the Shared Services, IT, Laboratory, and the Customer Centre are being reviewed. How is this review taking place and what are the likely outcomes?

- A) Each of the functional heads in the Business Center in Voorhees is reviewing their current activities to assess which are best delivered in the shared services model. Work is being undertaken by Bob Collington and his new management team in the Customer and Shared Business Services area. Some decisions have already been made, for example, the tax activities in Finance will be transferring to the Shared Services as will the HR Benefits Call Center. More work needs to be done in these areas and across all

functions to plan a smooth transition, discuss resource implications and agree the time scales. We have committed to complete this review by the end of April so that any changes can be communicated by May 11th.

13) Who decides, and how do they decide, when a job will be posted?

A) The new structures and roles are defined by the heads of the functions/business unit and these are then signed off by Jeremy Pelczer. Then the relevant line managers review the implications of these structures and roles for the people in their teams and determine which positions are new or have materially changed. These then become the roles that will be posted. The timing of the posting depends upon the level of the role, with a goal to have jobs of a similar size and job requirements posted at the same time across the business and with a consistent selection process.

Some of the positions that are vacant in the structure charts will not be posted until April 14th to ensure that potential applicants can see all of the relevant positions at the same time.

14) One of our goals has been to accelerate our business growth. What progress are we making in this area?

A) We have appointed the Lead Business Developers, communicated their structures, commenced internal and external recruitment, reached consensus on the financial hurdle rates for new business, made progress in developing tools to support business developers and commenced the design of the training modules to support the development of the Business Development teams. Work continues to convert the strategy into implementation plans particularly in the areas of wastewater and desalination. We have created a center of excellence for legal commercial/contractual work on O&M/DBO and military contracts at the Business Center. We are aggressively pursuing opportunities that are aligned with our strategy and meet our value contribution criteria. We anticipate positive material results coming through the pipeline by the middle of the year.

15) How can Business Center departments such as Finance and HR deliver the same amount of work with fewer people?

A) Given the new business model where the Center is responsible for strategy, policy, governance and facilitation of best practice, much of the activity that has traditionally been undertaken by the Business Center will move to the Regions, move into Shared Services, or simply will no longer be done as more efficient processes, systems and knowledge sharing are implemented.

16) What's happening with External Affairs at the Business Center

A) The External Affairs structure and roles are currently under review and Dan Kelleher will be communicating his final structure next week.

17) What happens if I can't access the posting system?

A) If you are having any problems please contact your local HR Manager immediately who will ensure that you have access to the relative material and that your application can be received by the deadline.

18) In the job descriptions for Director of Production, Network and Procurement a degree is specified as being the minimum requirement. Is this really the case?

A) Applicants with equivalent experience should apply.

19) If I don't have formal qualifications such as a degree, can I seriously be considered for a position?

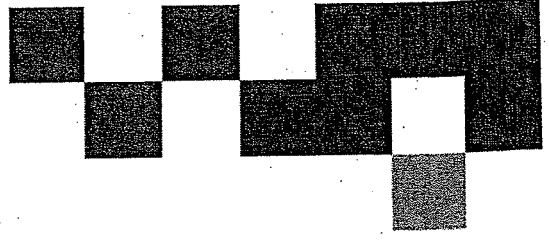
A) Yes, if you have relevant and equivalent experience.



Southeastern Region

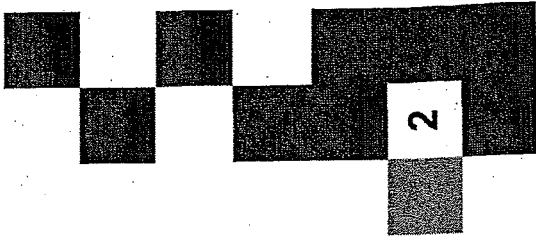
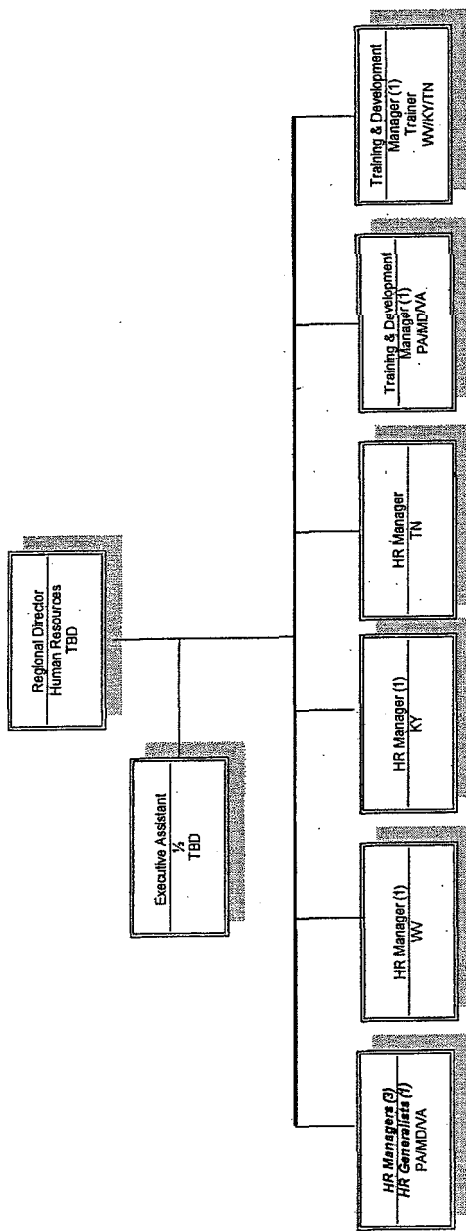
Structure Chart – Human Resources

March 10, 2004





Southeast Region - Human Resources

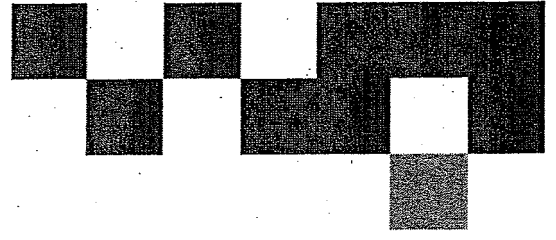




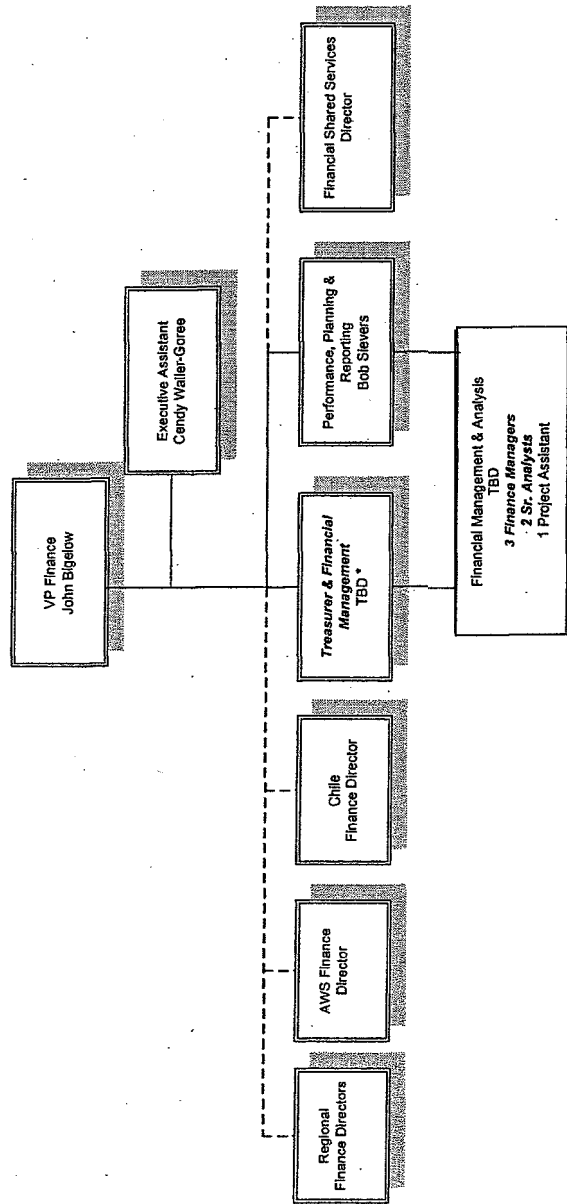
Business Center

Structure Charts

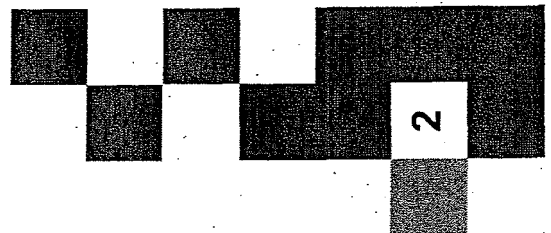
March 10, 2004



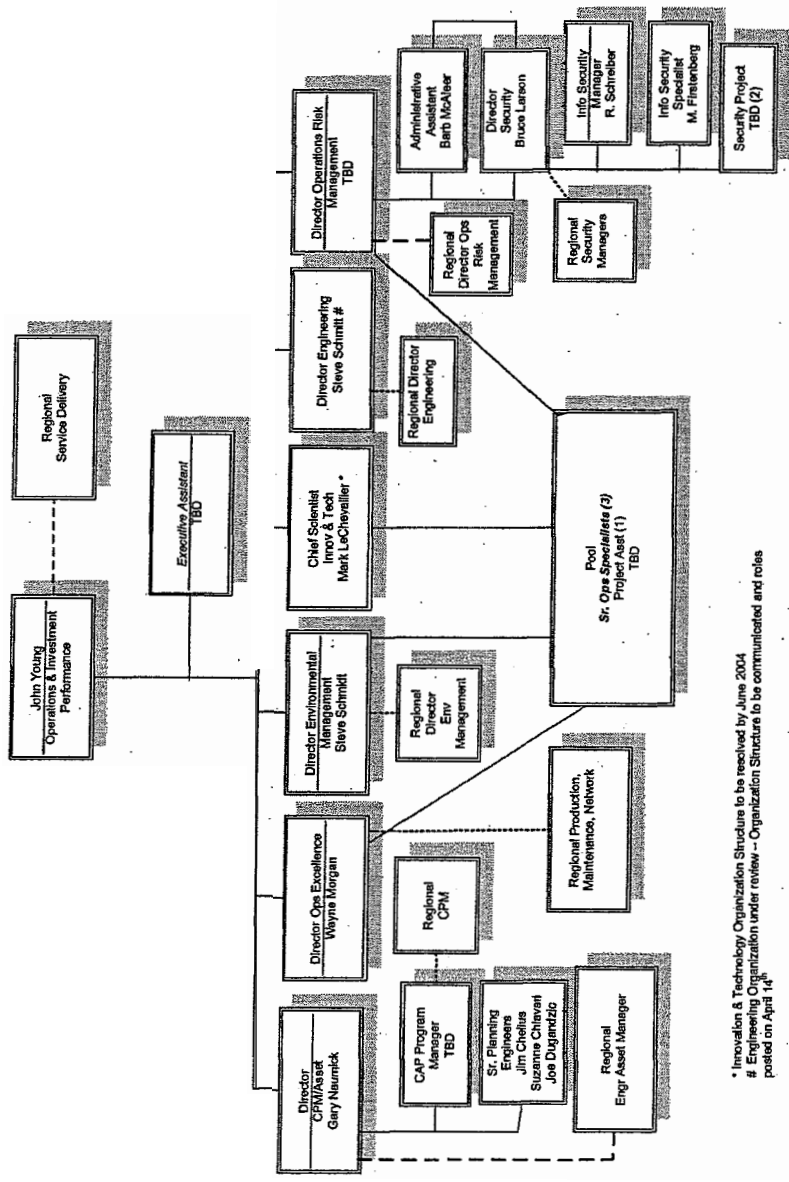
Business Center – Finance



* Joe Harnett to support transition to successor.



Business Center – Operational & Investment Performance

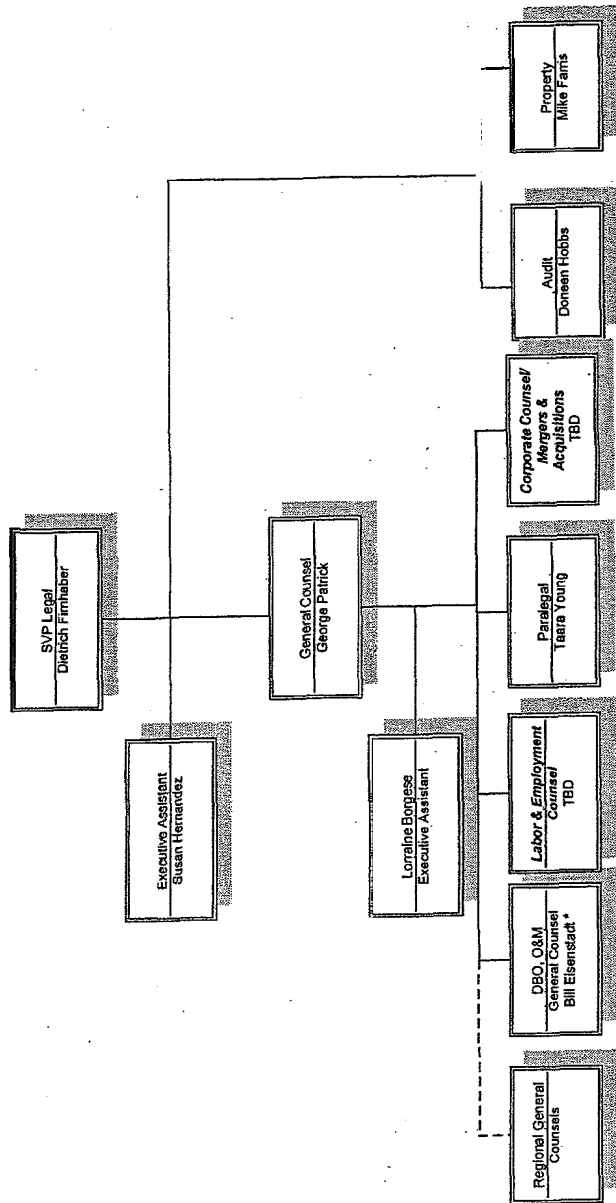


* Innovation & Technology Organization Structure to be received by June 2004
 # Engineering Organization under review -- Organization Structure to be communicated and roles posted on April 14th

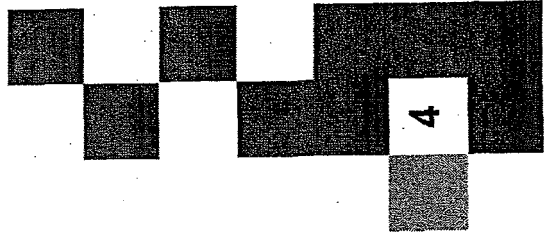




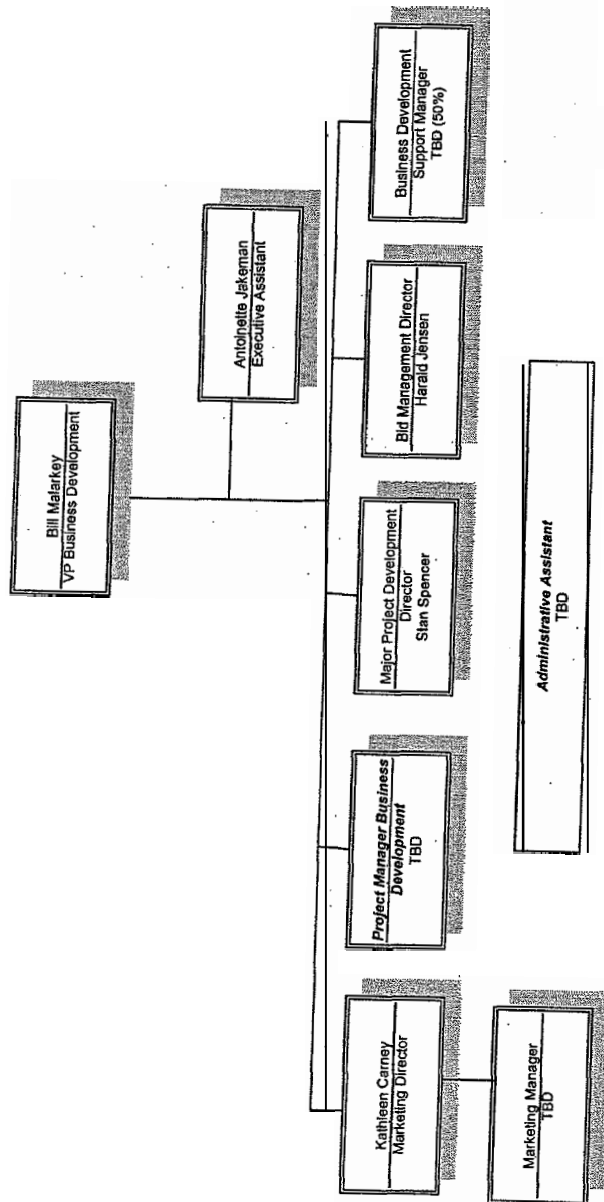
Business Center – Legal



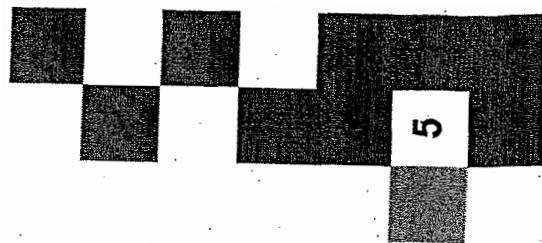
* Center of Excellence providing AW wide services.
 Full structure to be communicated/posted April 14, 2004



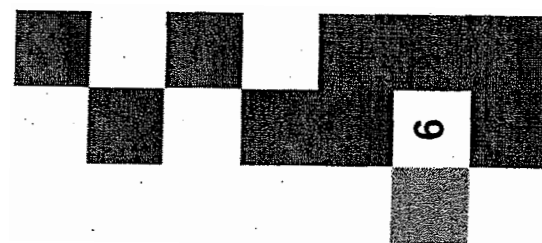
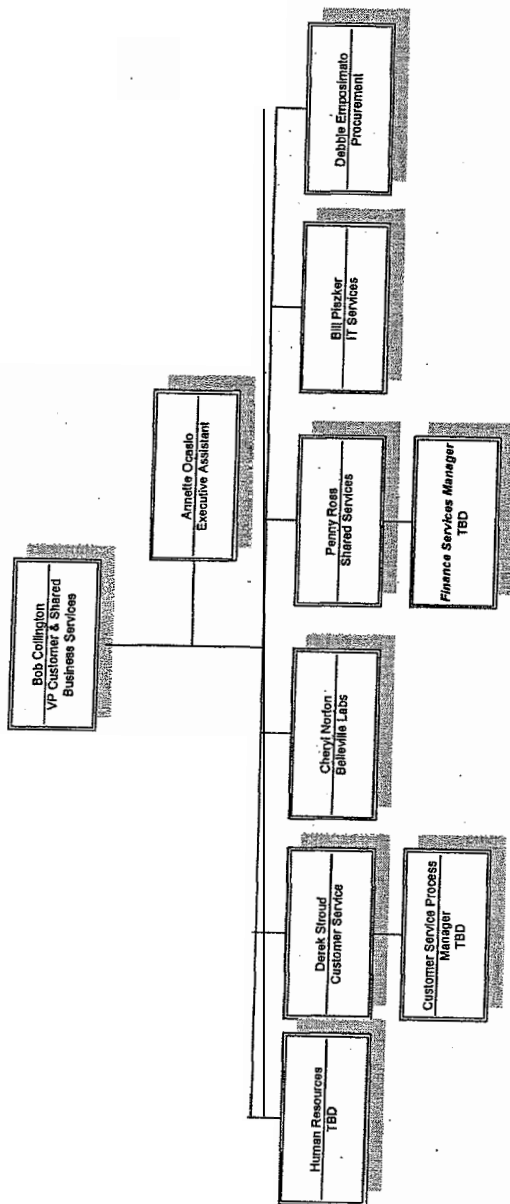
Business Center – Business Development



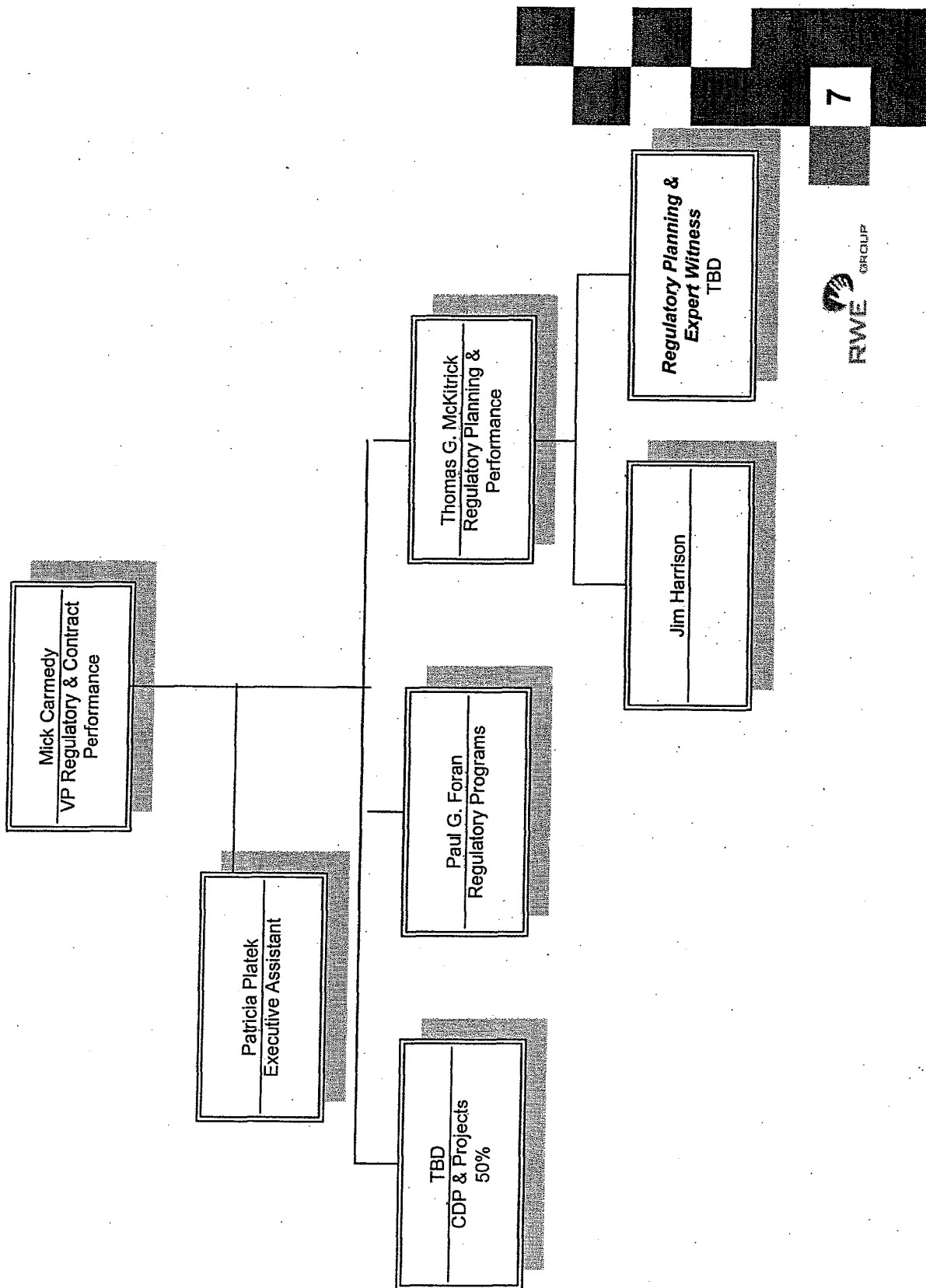
Shared with Regulatory and Contract Performance



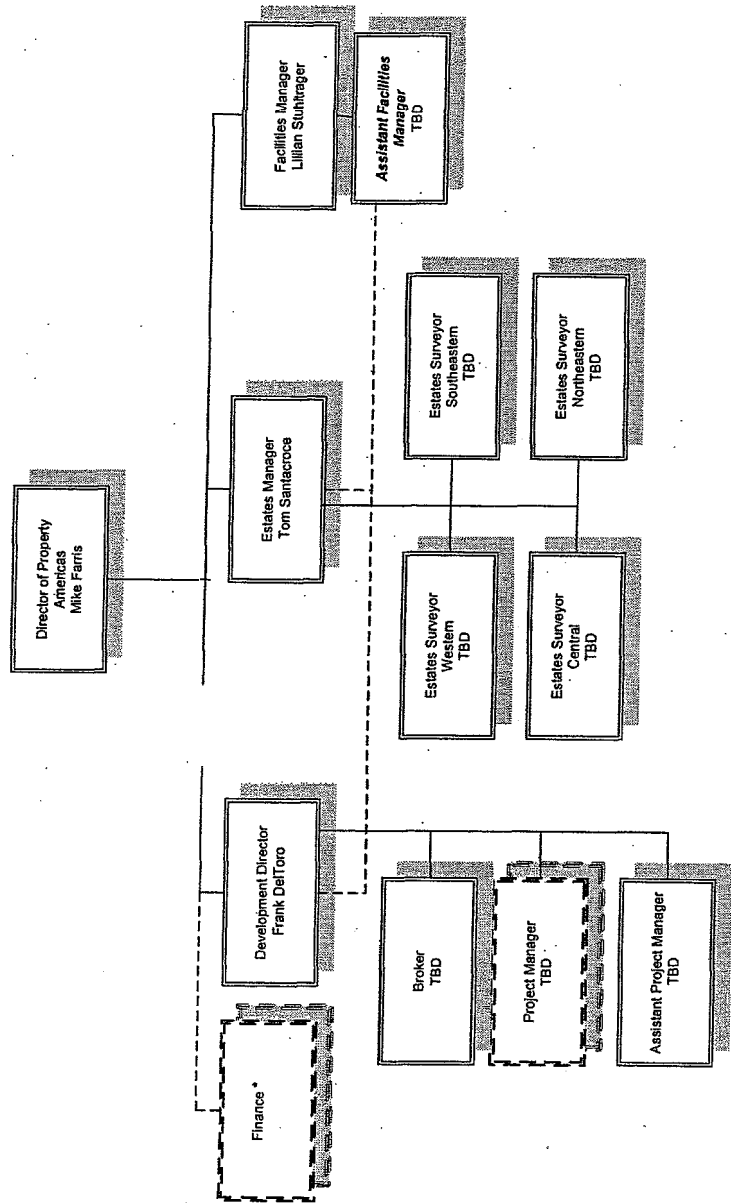
Business Center – Customer & Shared Business Services



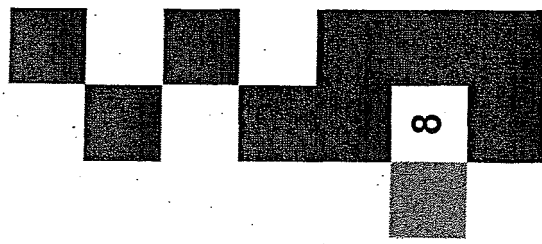
Business Center – Regulatory



Business Center – Property



* Financial support provided by Financial Shared Services





Memo

To All American Water Employees From Jeremy Pelczer, President & CEO
Date March 24, 2004 Phone 856.346.8302
Subject: Organization Restructuring Fax 856.346.8300

Dear Colleague,

Although the next milestone in the restructuring process is the second wave of Phase 3 postings and announcements which are planned for April 14, I wanted to continue to give you regular updates on progress with the restructuring and to respond to new questions received since my March 10 communication.

To give you a better sense of the scale of the restructuring, let me share with you some details.

- In Phase 1, our consultant assessed 30 employees, and 17 people were appointed to new roles.
- In Phase 2, 100 employees were assessed, and 34 were appointed to new roles.
- Individuals who were assessed in Phases 1 and 2, but who were not appointed to roles, were encouraged to apply for roles in Phase 3.
- In our first wave of Phase 3, we have had 883 applications for 165 positions. The process of short-listing and initial interviews is occurring at this time, and assessments will be scheduled in the very near future.
- On April 14, the second wave of Phase 3 will be announced with an estimated 132 positions posted.
- The organization design for Phase 4 is actively under way involving both functional leaders at the Business Center and Regional leaders who have been appointed in Phases 1 and 2.

This activity represents a significant amount of work and I am grateful for the effort taken by the teams across the business to make this happen. I would also like to thank those who are "stepping-up" and keeping the business going so well during this period.

~~Today, we are also posting some positions involved in the External Affairs function at the Business Center in Voorhees, and attached is their structure chart.~~

Alongside the extensive restructuring process, there is also a separate but related piece of work occurring. That is, the equally complex efforts to "market price" the salaries for each of the new roles. We have retained Towers Perrin, a widely respected consulting firm to assist our Human Resources team with this important task, and I am pleased with the work that has been done to date.

Jeremy Pelczer
President & CEO
American Water

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Memo

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I have said before and it bears repeating today that the process we are undergoing is one of the most important initiatives for our business. There is much work being done to ensure we get the right people in the right jobs and that we move the process as quickly as possible to completion.

I know that many of you are very concerned about the changes occurring in our business, and how these changes will affect you personally. I have spoken with and heard from many of you so I am aware of the uncertainty you are feeling. I am also appreciative of the comments we are receiving from many of you that the restructuring is the right thing to do, but stressing the importance of completing the review as soon as possible.

Since my last communication on March 10th, there have been 15 "Roadshow" meetings to speak with groups of employees about our business changes, business model principles and our restructuring process. It would be ideal if we were able to meet with all of our employees personally to communicate these important business initiatives. However, while our organization size and geographical diversity is a great sign of success, it also means that to reach out quickly, we have to take the same approach as we did with the Atlanta Business Conference and the Atlanta videoconference. As part of the Roadshow, we have invited a cross-section of employees from each geographic area to represent employees from that area. We have encouraged participants to communicate with you and inform you of the discussions.

We will continue to use that approach in our effort to expand face-to-face communications with employees from all levels of management. At the same time, I appreciate your continued patience and tolerance as we will try to invite every employee to a meeting of that kind in due time. It may take a while, but that is my goal.

We continue to receive feedback and questions through the Letsachieveit@amwater.com site. We are responding to those questions as quickly as we can and appreciate the way you have utilized the email address to have questions answered and raise issues of concern. We've selected certain of those questions, in addition to questions that have arisen from our recent Roadshow Meetings, as a way to keep employees as well as informed as possible, and these are attached. I encourage each of you to read through today's questions and answers. While there are many questions, I believe the questions asked and answered in this communication are important to all employees. If we have not covered an area that is a continuing question or concern for you, please let us know by sending an email to the above noted email site link. I am also interested in your general feedback about the quality, value and relevance of these communication updates.

Memo



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I am extremely proud of the way employees have responded to the challenges of these changes and the approach that has been taken throughout the organization. I can only reiterate my determination, with your help, to build an organization we can continue to be proud of well into the future, and I remain committed to completing this process within the promised timetable.

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1) 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.

2) Q: What happens if there is just one candidate for a position?

A) Though there is no requirement to have a certain number of candidates per position, it is important to get the right people in the right job. If the Company cannot find the "right" candidate within the business, it will go outside of the organization to seek an external candidate.

3) Q: Who in the organization is making the hiring decisions?

A) The final decision of who will be hired for any position will be the responsibility of the hiring manager. The decision making process will include input from the external assessors, other managers with a stake in the role (e.g.: functional managers) and also the Human Resources team. The selection decision made by the hiring manager is based on rigorous and objective data and is appropriately challenged by other senior managers to ensure that informed judgments are made on a consistent basis.

4) Q: In the selection process, will those chosen in Phase 3 be involved or have input with the next level of selections?

A) Wherever we have appointed someone they will be accountable for selecting their direct reports. In some cases it may not be possible due to the phased approach and our commitment to complete the restructuring by the end of July.

5) Q: I know that there will not be a role for me in the new structure. It is difficult for me to keep focused. When will I know when I am going to be able to leave?

A) If you are in this position, your line manager will meet with you to determine a separation date.

6) Q: Will we continue to use formal assessment centers when recruiting internally and externally after this restructuring has been completed?

A) The current process for hiring has proven successful during this restructuring and will likely stay in place going forward. However, it is probable that we will have our own in-house assessment tools that will be developed in cooperation with human resources.

7) Q: You stress "getting the right people in the right job," but I'm not convinced this is happening.

A) We are taking every step to ensure we get the right people in the right jobs. While no selection process can be guaranteed to get it right every time, we are investing considerable time, energy and resources to make our selection decisions as effective as possible. If, despite the care taken, we find an employee is not able to perform in line with our values and performance expectations, the linemanager of that individual

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will identify this through the performance management process and appropriate action will be taken. Each and every one of us will need to deliver in our roles and ensure we achieve our goals.

8) **Q:** Candidates that were assessed in Phase 2 were told they would receive a copy of their individual report. When will this be given to each candidate? If the candidate wants to discuss any of parts of the report, who can they talk to?

A) The Phase 2 assessment reports have been distributed to individuals. All individuals are encouraged to discuss their reports with their line manager and Human Resources, and to commit to an appropriate development plan.

9) **Q:** Regarding the job postings, employees have 5 days to respond to the postings. The 'let's achieve it' email may not provide an answer to any questions for up to 10 days. How do we get questions on job postings answered before the 5 days expire?

A) If you have a question on a specific role, please contact the hiring manager or your local Human Resources manager directly. It is important to be sure you apply for any role you feel you may be suited to within the posting deadline.

10) **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.

11) **Q:** Will **supervisors** that are displaced during the restructuring be given the chance to fill non-supervisory roles (e.g. Meter Reader)?

A) In principle all individuals have the opportunity to apply for vacant positions. However, in certain cases these positions are part of a collective bargaining unit and the terms of the collective agreements will be respected.

12) **Q:** Why have we chosen to post senior management roles and some administrative assistant roles but not the roles in the levels in between at this time?

A) We have been moving down through the layers of the management structure phase by phase and in completing the organization design for the first wave of Phase 3 (the positions that were posed on 3 March and 10 March), we were also able to identify some changes to administrative roles. It was felt that we could and should post these roles as we had clarity about them and, on the basis that the senior managers were in place, we had 'hiring managers' able to make their selection and appointment decisions. The layers in between will be covered by the Phase 3 second wave of postings scheduled for April 14, and in Phase 4.

13) **Q:** Should we, if we work in Products and **Services/AWS**, be applying for jobs that are being posted elsewhere?

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A) If you currently work in our non-regulated businesses and you see positions advertised in the internal job posting system that are a good match for you and provide you with career interests and opportunities, then you are very welcome to apply for them.

14) **Q** I understand that jobs are being posted but I don't currently have access to the job posting system electronically or by **email**. How can I find out about the opportunities?

A) Your line managers and the HR managers for your business unit have a responsibility to ensure that you receive notification of opportunities that exist elsewhere in the business. If you cannot obtain electronic copies of these, they are making arrangements to ensure that paper copies are provided to employees at office sites across the country. If you are still not getting access to any of this material, you should contact your local HR manager or your line manager to gain access to it.

15) **Q** What happens if I apply for a job, am successful in my application but then decide to decline the offer?

A) If you apply for a role, we will assure that you have done so 'in good faith' and are both interested in the position and willing to commit yourself to it if offered the role – declining an offer indicates that you are not interested in working for the Company. In this case you will be declining a "job offer" and effectively resigning or retiring from the Company. Naturally if the job you are offered is at a lower level salary than your current position, this is a different structure and will be discussed with you at the time the offer is made. In these situations, individuals will still have the enhanced severance terms as an option.

16) **Q** When will I know if I have been shortlisted for an **interview** and who will be conducting the interview?

A) Candidates who apply for positions that were posted on the 3rd and 10th of March should know that they have been shortlisted by March 26. Individuals who have not been shortlisted for an interview will receive some basic feedback from the relevant line manager or HR manager that will explain how that decision has been arrived at. The hiring manager for that position will interview those who are put forward for an interview.

17) **Q** What happens after this round of interviews?

A) If you are successful in the interview process, you will go through to the final assessment centers. If you are unsuccessful, you will receive feedback.

18) **Q** We currently have different benefit packages in American Water in varying locations. Will we be standardizing benefit packages throughout the Company?

A). We are ensuring that the benefits we provide are market driven. This will mean that ~~we provide different benefit packages for different types of work and in different types of~~ business environments. This is in line with our business model principles. We are committed to providing benefits (and salaries) that will attract, motivate, reward, and retain talent in the company.

19) **Q** I turn 55 this year and was thinking of retiring. Will I be allowed to submit my retirement with 2 months notice as required, and be allowed to retire with health benefits?

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A) RWE has agreed that subject to applicable law and collective bargaining agreements, it will cause the surviving company to provide lifetime medical and life insurance benefits at the same level as, and at the same cost (if any) as, in effect immediately prior to the date of the merger (1) to all covered current retirees (as of the date of the merger) and (2) all covered employees of our company and its subsidiaries who, as of the date of the merger, have satisfied all applicable eligibility requirements for the purposes of our retiree medical plan as currently in effect at such time after the merger as the employees retire." Since January 10, 2003, a number of non-union employees who have satisfied all applicable eligibility requirements for the purpose of being provided retiree medical benefits have raised the question as to how the two above provisions of the RWE/Thames merger agreement impacts them.

Some have raised the question as to whether or not they must retire during the next 12 months in order to benefit from the promise of lifetime retiree medical benefits. Others have raised the question as to whether or not they will also benefit from the promise of lifetime retiree medical benefits if they become eligible for retirement prior to January 10, 2004 (or July 10, 2004).

Union-represented employees have not raised this question because the continuation of their retiree medical benefits is subject to collective bargaining.

Continued retiree medical benefits beyond the 18 months following the merger are guaranteed to only those who were retired or became eligible to retire ("Rule of 70") on January 10, 2003, the date of the merger.

Employees who become eligible to retire after January 10, 2003 are assured that their retiree medical benefits will remain in place for 18 months following the merger. However, they have no assurance of retiree medical benefits after the end of the 18 months whether they are retired or not. These employees are in the same position and have the same benefits available to them as were in effect prior to the merger. The company has maintained the right to modify or terminate benefits at any time. The RWE merger agreement does not provide retiree medical benefits to retirees or employees who previously did not have them.

20) Q: I am a non-union employee who is eligible for health benefits upon retirement, I was informed that if I am displaced I must retire on or before the date I leave the company to retain my health benefits and that I will be eligible to receive the enhanced severance. Is this true?

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. Only employees who were eligible for post-retirement health care benefits as of the date of the merger are eligible to receive the benefit commitment in the merger agreement.

21) Q: Are retirees eligible for unemployment insurance?

A) You should consult your state unemployment office to determine if you are eligible to collect unemployment insurance. Unemployment laws differ in every state.

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22) Q: What are the details of the severance package?

A) The severance package has been outlined below.

SEVERANCE PAY

- One week of base pay for each full year of service with a minimum of four weeks up to a maximum of 20 weeks
- One and one-half weeks of base pay for each full year of service beyond 20 years to a maximum of 52 weeks
- Part-time employees receive pay based on hours worked per week but are not eligible for health care, outplacement or employee assistance

HEALTH CARE

- For all employees who are eligible for continuation of coverage under COBRA, the company will pay the associate's COBRA premium based on years of service. The employee will be granted one week of company paid COBRA for each full year of service with a minimum of 1 month and maximum of 6 months. (period of coverage rounded to the nearest full month)
- Employees who are eligible to commence retirement under the company's pension plan and are eligible for continued post-retirement health care will not be eligible for company-paid COBRA

OUTPLACEMENT

- Terminated employees will receive professional outplacement services to assist them in transitioning to other employment as follows:

<u>Title</u>	<u>Lenath of Program</u>
Vice President /Director	up to 6 months
Managers	up to 4 months
Supervisors	up to 3 months
All Other Exempt	up to 2 months
Non-Exempt	up to 1 month

- Outplacement services will be provided by Right Management Consultants
- Outplacement can not be exchanged for additional severance pay

EMPLOYEE ASSISTANCE

- Terminated employees and their dependents may continue to access the Employee Assistance Program through Carebridge (800.437.0911) for 6 months

FURTHER QUESTIONS

- Please direct all questions and/or concerns to your local Human Resources department

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23) Q: Why did Jeremy Pelczer make a discretionary payment to employees and how were people selected to receive a payment?

A) Jeremy recognized that 2003 was an exceptional year during which the merger with RWE/Thames Water was completed and the business faced a number of challenges with the external business market, and the weather, and also invested a lot of internal energy on integrating American Water into the RWE family. In spite of our not achieving our financial goals during 2003, progress was made in the business and Jeremy sought to recognize the efforts and contributions that employees made to our success. It was felt that a lot of good work had been undertaken by a large number of employees and that this should be duly recognized with an award. Although no payment was made to any business unit under the Annual Incentive Plan, unless they achieved their targets, these discretionary payments have been awarded to exempt employees who did not receive overtime payments for their discretionary efforts.

24) Q: What is happening with the 2004 Annual Incentive Plan?

A) We are currently finalizing the communication material that supports the 2004 Annual Incentive Plan. We anticipate this being communicated within the next week or so. The 2004 Annual Incentive Plan will cover the same eligible population as the previous American Water annual incentive plans but the design of the plan will be more aligned with RWE's policy and practice. This will be explained in full in the communication material.

25) Q: Will there be a voluntary severance or early retirement program made available to employees?

A) We have no plans to provide a voluntary severance or early retirement program for employees. This is because we value the skills, expertise and experience of our employees and are reluctant to enable this valuable experience to leave the business in a way that we cannot manage and effectively control. Maintaining our operational integrity, the quality of our customer service and enabling growth of the business are essential parts of our strategy. A program that enables an "early out" to occur can damage the core capabilities of the business. The phased approach we are taking to restructure the business and select the best internal candidates for the roles provides the best mechanism to ensure that we can retain the 'right people in the right place.'

26) Q: What are the rules that govern the access to the enhanced severance package?

A) Individuals leaving the business can do so with the enhanced severance terms that include the provision of outplacement support on the basis that they sign the normal release documentation. Individuals who are in this position will receive clear information on their rights, duties and obligations and will have an opportunity to seek legal counsel before making any irrevocable decisions. The severance packages are available to employees whose positions have been eliminated as part of the restructuring or to those whose positions have been materially changed as part of the restructuring and have been unsuccessful in their application for a new role.

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

A) Each of the regions and the business center functions will be responsible for determining which of their administrative support positions are impacted by the

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restructuring. They will then post the affected positions and manage an appropriate selection process for assessing applicants.

28) Q: What is the role of a center of excellence?

- A) We are establishing centers of excellence for a variety of the activities we rely on. For example, a center of excellence may be located in a state or region that has a large proportion of certain types of facilities, and that has one or more individuals who are proficient in dealing with that type of facility. A center of excellence may reflect an individual or a group of individuals with specific expertise, for example: our dam experts are in Pennsylvania; our Commercial legal expertise is based in Voorhees. We do expect centers of excellence will be located in a variety of different areas of our business, and they will provide knowledge, experience, and support that benefit the whole Company.

29) 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'.

30) Q: There were a number of positions that were listed with the location as "to be determined". How can I find out more details on these roles?

- A) In order to attract a broader range of candidates, the hiring manager has decided to be flexible on location. You are advised to contact the hiring manager to discuss the role(s) and its location.

31) Q: Job titles on the regulated and non-regulated sides of the company are different. Could a chart showing job titles with job responsibilities be shown for both sides of the company?

- A) No comparison chart currently exists, but these differences will be addressed as the transfer of the O&M contracts into the regulated business occurs. Employees should be able to identify comparable roles by looking at the current structure charts and role descriptions. If you have any questions relating to a specific role, your local Human Resource representative or the hiring manager will be able to assist you. Job titles are being reviewed and will be consistently applied in the new structure.

32) Q: Some of the administrative roles have changed and so have some of the titles. What is going on?

- A) As we have reviewed the roles in the structure, we have begun to conclude that we have ~~too many grades, titles and layers in the organization. We also have a system that derives~~ salaries based on job titles and the hierarchy of reporting relationships rather than job size and market pricing. In the future, it is the size of your role (accountability, and know-how required) that will be 'priced' in the job market to determine salaries. One of the areas in which we feel some added simplicity can be provided is in the area of administrative assistants where we have agreed that there will be two broad categories of administrative assistants ("executive" assistants and "administrative" assistants). As this approach is consistently implemented across the business, the implications for current administrative employees will be explained to them. The "no detriment" obligations under the RWE

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merger will, of course, be honored for any employee who is impacted but we anticipate that the titling changes will not have a material impact on salaries, responsibilities, etc. We will be simplifying the grading structure and consistently use new job titles as we 'delay' the business.

Jeremy Pelczer, President and CEO will be doing a short communication next week that gets out his philosophy on these important matters. The way in which we manage pay, grading and job titles will be changing in the restructuring processes. Benefits, though under review this year, will not change until next year at the earliest.

33) Q: Should employees in the shared services areas of the business (shared business, IT, customer center, financial shared services) be applying for jobs elsewhere now?

A) Any employee who sees a position advertised that provides them with good career opportunity, is a good match for their skills and experience and for which they have a genuine interest, is very welcome to apply. Employees in the shared services areas of the business are aware that Bob Collington, VP Customer & Shared Business Services, is currently reviewing with the senior management team the activities within shared services. Bob plans to announce any changes arising from that by the middle of May. If any individual has any particular questions, comments or constructive suggestions to make about the review of these parts of the businesses, they are advised to contact their line manager or Bob Collington directly. Once again, all employee inputs to this process are to be welcomed.

34) Q: I have heard that the old Southeast Region businesses are now going to be reporting directly into Bob Ross, the Regional Managing Director in Hershey in the new functional structure. Is this the case?

A) We have confirmed recently that Chris Jarrett and Roy Mundy will be focusing on our external stakeholder matters, managing our position with regulators, the commission and politicians (particularly as we defend our position against the threat of condemnations) in the Southeast. The business in Kentucky will be managed in line with the general Business Model Principles and will report on a functional basis into the Regional Directors based in Hershey. These changes will be managed in a sensitive way in the coming weeks but they will ensure that the Southeast states are aligned with the remainder of the region and American Water as a whole.

35) Q: It has been stressed that the Company is emphasizing the growth agenda. How do we reconcile the two goals of efficiencies (which lead to headcount reductions) and growth?

A) The goals of growth and efficiency are not mutually exclusive. In fact, to facilitate our growth, we need to become as efficient as possible and build our reputation for operational integrity and customer service. We will grow the business by having the ~~most efficient processes and systems and the most capable people~~ The current restructuring will enhance our operations and enable us to win new business. We are investing in the business with new technology, systems and processes. We are also investing in people by developing individuals (e.g.: through the license to manage program and our business development training which will be rolled out in May of this year) and by attracting talented individuals to the Company to help us grow.

36) Q: Is AWS going to exist after the reorganization?

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A) AWS, as it currently stands, will no longer exist when the restructuring has been completed. However, we will retain our nationally organized and run business lines which provide products and services to our clients, and which will continue to add value to the corporation. These will continue to be managed as a group of non-regulated national business lines. The O&M and DBO side of the business is being migrated into the regulated regions. This will be completed when each project has been reviewed and individual transition plans drawn up. The regions are getting ready to take on these operating responsibilities.

37) Q: I've heard that some of our non-regulated businesses are being sold. Is this true and, if so, why?

A) We are currently selling two of our non-regulated business lines (Ashbrook and Leopold) and hope to conclude those sales within the coming days. Businesses that no longer fit our strategic plan will be sold at a time when we can ensure that we obtain an appropriate sale price for these businesses. Ashbrook and Leopold have been long-standing companies within Thames Water and have consistently added value to the group. The decision to sell them is a consequence of our recent strategic review.

38) Q: In the last set of questions and answers received on 10 March, there was reference to "expats" (British and Germans from RWE/Thames Water who are currently working here). I'm interested to know how many of them are here and if it is RWE/Thames' policy to put "expats" into businesses they have acquired?

A) Currently, we have 30 expatriates in North America, and by the end of 2004, this number will have reduced to 15. By the end of 2005, the number of expatriates is anticipated to have reduced further to approximately 5. It is the policy of RWE and Thames to encourage mobility of employees around the world, both for the individual's personal/professional development and to benefit the business through the sharing of best practice, knowledge and experience across the family of businesses.

The CEO of RWE, Harry Roels, favors having a cadre of mobile professionals who can add considerable value in businesses around the world and is encouraging RWE to adopt a more flexible and mobile workforce. This is a key strategic driver for RWE; to build our global capabilities. American Water employees have an opportunity to be a part of this "internationalization" of the business.

In the same way that American Water has typically put its own people in to manage businesses that it has acquired, RWE/Thames Water has usually appointed a variety of 'expats' into the businesses it has acquired to provide for effective integration, governance and control, and knowledge sharing. This is very much a two-way street and employees are encouraged to consider taking on roles in other parts of RWE. If anyone is interested in an overseas assignment, they should contact their HR manager or Jerry Bailey, Director of Employee Relations.

39) Q: What's happening to the military contracts group?

A) The military group is a key part of our strategy to grow the business.. Within the next two years there are a number of significant military contracts coming up around the country that American Water is superbly placed to win. A combination of our reputation,

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our expertise and our operational footprint ensures that we are highly competitive in this market. These military contracts are often of up to 50 years in duration and are exactly the right fit operationally and strategically for us. Our goal is to capture as much of this market as we can and we have a dedicated Business Development team working on these projects, managed by Bill Malarkey, the VP of Business Development. Bill's task is to ensure that we deliver on our growth plans with the military contracts and to also to work with Walter Lynch, Managing Director of Products and Services, to ensure that the operating military contracts that we already have are successfully transitioned into the regulated businesses. In other words, the Business Development activities for the military business line are handled nationally and the operational elements of the military business line are being transitioned into the regions.

40) Q: I have seen that a new role for VP of Wastewater has been designed for the structure. Why do we need this role and what will it be doing?

A) The new VP Wastewater will be responsible for ensuring that our wastewater business grows in line with our business and strategic plan. Initially, our key objectives are to focus on the Southeastern and Northeastern regions and within our existing water operations, to expand into wastewater. The new VP will coordinate this activity and ensure that we have the operational and technical resources to grow and deliver wastewater contracts and will be working through the Regional Managing Directors and regional business development directors to accelerate our growth in this key area.

41) Q: Can you confirm that the whole business is being reviewed and restructured?

A) We started the restructuring with the Regions, then the Business Center at Voorhees, and now we are focusing on the Shared Service functions. Bob Collington is currently undertaking a review of Shared Services and the Customer Center and the same business principles and depth of analysis is taking place for these parts of the business as has been done for the regional reviews and the other functions at the Business Center. Bob plans to communicate the outcomes of this review by the middle of May. The whole business is being reviewed in line with our Business Model Principles.

42) Q: Will the role that we currently play in the communities that we serve be impacted by any of the organizational changes taking place now?

A) Our business is, and always will be, a local business. The quality of the service that we provide locally and the integrity with which we undertake all of our activities in that community will be the yardstick by which we are measured and will determine how successful we are as a business. It is our intention to maintain or enhance our position within the communities that we serve, and to focus our activities here; we have created a role at the Business Center, Corporate Social Responsibility (CSR). This ensures that we have a constructive and proactive local presence and are perceived in a positive and consistent way in the communities.

For each of the communities that we serve, a single individual will have responsibility for managing our external stakeholders and will be our face to the customers and opinion formats in the community. In the new structure, this is the network manager role in the organization, but occasionally (depending on the size and scope of the local business) there may be a "general manager" who covers both network, production and other functional responsibilities. It is through these key positions that we will be maintaining our local focus. These roles will be supported by the regional external affairs teams.

43) Q: I'm concerned with losing expertise and knowledge within the company during the restructuring process. How will American Water make sure we don't lose key people?

A) During times of change, businesses do run the risk of losing key people. Our goal is to retain the people in the business who can make the greatest contribution to our business success. This means we are seeking to retain a diverse pool of talent, skill and expertise as we go through the selection process. We are also working best to build a knowledge sharing culture and are creating "knowledge communities" which will help us to leverage the knowledge and experience we have across the business.

44) Q: When will these restructuring changes be finished?

A) The Phase 3 & 4 restructuring will be completed by the end of July 2004 and by that time all exempt employees should have clarity about their personal position. Where there are parts of the business that require further analysis this will be undertaken in the same way as in Phases 1-4 (i.e. business needs analyzed, structure & roles designed, communication, posting of new & materially changed jobs, selection and appointments)

It is important to recognize that change is on going, and the organization will continue to evolve. There will continue to be significant positive changes in the business as we invest in new technology, systems and processes over the next two to three years and this will have an impact on all of us.

45) Q: I've been confirmed in my job and I'm grateful that I have a more certain future, however, I feel bad for my colleagues who are still waiting to find out what happens to them and for those who are leaving the company. Are other people feeling like this?

A) All of our practical experience of managing change, particularly of this nature, and the external research and writing on this subject characterize these feelings of remorse and guilt as being absolutely normal. Those employees who "survive" organizational changes often have some difficulty coming to terms with the changes that have happened and it can take time before they can come to terms with the experience.

Many companies have come to recognize that individuals who are provided with continuity of employment after organizational changes need to be looked after as well as those who are leaving the business. Many companies invest a lot of time and energy in assisting employees to leave the company in a dignified way through outplacement and counseling, etc., and sometimes forget about the feelings of people who are left inside the organization. Once the reorganization has been completed for our management and supervisory group, each functional head and senior manager will be pulling their teams together and refocusing them on the challenges ahead and the future of the business. This activity is likely to take place in September and Jeremy Pelczer will be providing some guidelines to support managers in building their new teams at that time

46) Q: I'm struggling a bit with the organizational changes, not knowing what my fate is and I'm unsure whom I can talk to about things. Is there anywhere I can go for help and advice?

A) You are encouraged to discuss matters with your colleagues, your boss and with your HR professionals—all of who have an interest in your well being. Much benefit can be derived from simply sharing how you feel and realizing that you are not alone in facing

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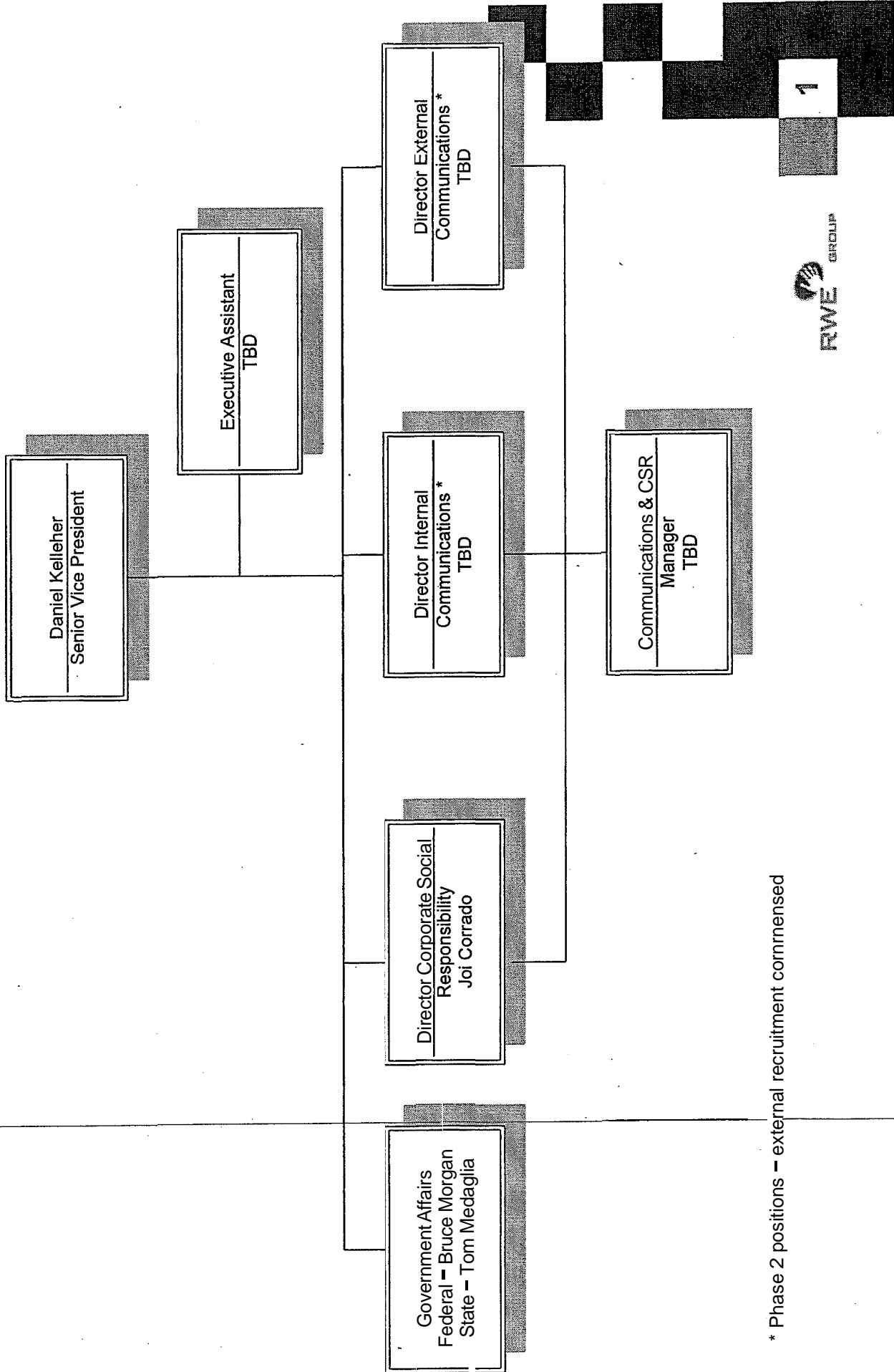


your anxieties. The Employee Assistance Program also provides employees with an opportunity to discuss any feelings that they may currently have. The Carebridge telephone number is: 1-800-437-0911. Employees are encouraged to take advantage of the employee assistance help line if they have any specific issues and Carebridge provides support for those facing stressful times related to work, finances, relationships and family matters.

47) Q: Is it true that we are being managed and rewarded based on our results—not just our hard work?

A) It is an important part of our performance culture that employees are recognized and rewarded for delivering results. We have many employees who are highly committed and work extremely hard on our behalf. But, what actually matters is what is delivered. The contribution that each of us makes to achieving our goals in terms of operational excellence, customer service and business growth will determine how we are rewarded and, indeed, what opportunities remain open for us within the organization. We are increasingly being measured on not just the financial performance that we deliver but also all the other elements of our performance. The Balanced Scorecard and the new performance management process being rolled out in the License to Manage initiative are all mechanisms which reinforce the combination of what we do and the way that we go about doing it, i.e., the behaviors which should be in line with our values. It is the combination of all of these things that will determine our pay, our promotion opportunities and the success of the whole company.

Business Center – External Affairs



* Phase 2 positions – external recruitment commensed



Memo

To All American Water Employees From Jeremy Pelczer, President & CEO
Date March 24, 2004 Phone 856.346.8302
subject : Organization Restructuring Fax 856.346.8300

Dear Colleague,

Although the next milestone in the restructuring process is the second wave of Phase 3 postings and announcements which are planned for April 14, I wanted to continue to give you regular updates on progress with the restructuring and to respond to new questions received since my March 10 communication.

To give you a better sense of the scale of the restructuring, let me share with you some details.

- In Phase 1, our consultant assessed 30 employees, and 17 people were appointed to new roles.
- In Phase 2, 100 employees were assessed, and 34 were appointed to new roles.
- Individuals who were assessed in Phases 1 and 2, but who were not appointed to roles, were encouraged to apply for roles in Phase 3.
- In our first wave of Phase 3, we have had 883 applications for 165 positions. The process of short-listing and initial interviews is occurring at this time, and assessments will be scheduled in the very near future.
- On April 14, the second wave of Phase 3 will be announced with an estimated 132 positions posted.
- The organization design for Phase 4 is actively under way involving both functional leaders at the Business Center and Regional leaders who have been appointed in Phases 1 and 2.

This activity represents a significant amount of work and I am grateful for the effort taken by the teams across the business to make this happen. I would also like to thank those who are "stepping-up" and keeping the business going so well during this period.

~~Today, we are also posting some positions involved in the External Affairs function at the Business Center in Voorhees, and attached is their structure chart.~~

Alongside the extensive restructuring process, there is also a separate but related piece of work occurring. That is, the equally complex efforts to "market price" the salaries for each of the new roles. We have retained Towers Perrin, a widely respected consulting firm to assist our Human Resources team with this important task, and I am pleased with the work that has been done to date.

Jeremy Pelczer
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Memo

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I have said before and it bears repeating today that the process we are undergoing is one of the most important initiatives for our business. There is much work being done to ensure we get the right people in the right jobs and that we move the process as quickly as possible to completion.

I know that many of you are very concerned about the changes occurring in our business, and how these changes will affect you personally. I have spoken with and heard from many of you so I am aware of the uncertainty you are feeling. I am also appreciative of the comments we are receiving from many of you that the restructuring is the right thing to do, but stressing the importance of completing the review as soon as possible.

Since my last communication on March 10th, there have been 15 "Roadshow" meetings to speak with groups of employees about our business changes, business model principles and our restructuring process. It would be ideal if we were able to meet with all of our employees personally to communicate these important business initiatives. However, while our organization size and geographical diversity is a great sign of success, it also means that to reach out quickly, we have to take the same approach as we did with the Atlanta Business Conference and the Atlanta videoconference. As part of the Roadshow, we have invited a cross-section of employees from each geographic area to represent employees from that area. We have encouraged participants to communicate with you and inform you of the discussions.

We will continue to use that approach in our effort to expand face-to-face communications with employees from all levels of management. At the same time, I appreciate your continued patience and tolerance as we will try to invite every employee to a meeting of that kind in due time. It may take a while, but that is my goal.

We continue to receive feedback and questions through the Letsachieveit@amwater.com site. We are responding to those questions as quickly as we can and appreciate the way you have utilized the email address to have questions answered and raise issues of concern. We've selected certain of those questions, in addition to questions that have arisen from our recent Roadshow Meetings, as a way to keep employees as well as informed as possible, and these are attached. I encourage each of you to read through today's questions and answers. While there are many questions, I believe the questions asked and answered in this communication are important to all employees. If we have not covered an area that is a continuing question or concern for you, please let us know by sending an email to the above noted email site link. I am also interested in your general feedback about the quality, value and relevance of these communication updates.

Memo



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I am extremely proud of the way employees have responded to the challenges of these changes and the approach that has been taken throughout the organization. I can only reiterate my determination, with your help, to build an organization we can continue to be proud of well into the future, and I remain committed to completing this process within the promised timetable.

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1) 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.

2) Q: What happens if there is just one candidate for a position?

A) Though there is no requirement to have a certain number of candidates per position, it is important to get the right people in the right job. If the Company cannot find the "right" candidate within the business, it will go outside of the organization to seek an external candidate.

3) Q: Who in the organization is making the hiring decisions?

A) The final decision of who will be hired for any position will be the responsibility of the hiring manager. The decision making process will include input from the external assessors, other managers with a stake in the role (e.g.: functional managers) and also the Human Resources team. The selection decision made by the hiring manager is based on rigorous and objective data and is appropriately challenged by other senior managers to ensure that informed judgments are made on a consistent basis.

4) Q: In the selection process, will those chosen in Phase 3 be involved or have input with the next level of selections?

A) Wherever we have appointed someone they will be accountable for selecting their direct reports. In some cases it may not be possible due to the phased approach and our commitment to complete the restructuring by the end of July.

5) Q: I know that there will not be a role for me in the new structure. It is difficult for me to keep focused. When will I know when I am going to be able to leave?

A) If you are in this position, your line manager will meet with you to determine a separation date.

6) Q: Will we continue to use formal assessment centers when recruiting internally and externally after this restructuring has been completed?

A) The current process for hiring has proven successful during this restructuring and will likely stay in place going forward. However, it is probable that we will have our own in-house assessment tools that will be developed in cooperation with human resources.

7) Q: You stress "getting the right people in the right job," but I'm not convinced this is happening.

A) We are taking every step to ensure we get the right people in the right jobs. While no selection process can be guaranteed to get it right every time, we are investing considerable time, energy and resources to make our selection decisions as effective as possible. If, despite the care taken, we find an employee is not able to perform in line with our values and performance expectations, the line manager of that individual

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will identify this through the performance management process and appropriate action will be taken. Each and every one of us will need to deliver in our roles and ensure we achieve our goals.

8) **Q:** Candidates that were assessed in Phase 2 were told they would receive a copy of their individual report. When will this be given to each candidate? If the candidate wants to discuss any of parts of the report, who can they talk to?

A) The Phase 2 assessment reports have been distributed to individuals. All individuals are encouraged to discuss their reports with their line manager and Human Resources, and to commit to an appropriate development plan.

9) **Q:** Regarding the job postings, employees have 5 days to respond to the postings. The 'let's achieve it' email may not provide an answer to any questions for up to 10 days. How do we get questions on job postings answered before the 5 days expire?

A) If you have a question on a specific role, please contact the hiring manager or your local Human Resources manager directly. It is important to be sure you apply for any role you feel you may be suited to within the posting deadline.

40) **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.

11) **Q:** Will supervisors that are displaced during the restructuring be given the chance to fill non-supervisory roles (e.g. Meter Reader)?

A) In principle all individuals have the opportunity to apply for vacant positions. However, in certain cases these positions are part of a collective bargaining unit and the terms of the collective agreements will be respected.

12) **Q:** Why have we chosen to post senior management roles and some administrative assistant roles but not the roles in the levels in between at this time?

A) We have been moving down through the layers of the management structure phase by phase and in completing the organization design for the first wave of Phase 3 (the positions that were posed on 3 March and 10 March), we were also able to identify some changes to administrative roles. It was felt that we could and should post these roles as we had clarity about them and, on the basis that the senior managers were in place, we had 'hiring managers' able to make their selection and appointment decisions. The layers in between will be covered by the Phase 3 second wave of postings scheduled for April 14, and in Phase 4.

13) **Q:** Should we, if we work in Products and **Services/AWS**, be applying for jobs that are being posted elsewhere?

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A) If you currently work in our non-regulated businesses and you see positions advertised in the internal job posting system that are a good match for you and provide you with career interests and opportunities, then you are very welcome to apply for them.

14) Q: I understand that jobs are being posted but I **don't** currently have access to the job posting system electronically or by **email**. How can I find out about the opportunities?

A) Your line managers and the HR managers for your business unit have a responsibility to ensure that you receive notification of opportunities that exist elsewhere in the business. If you cannot obtain electronic copies of these, they are making arrangements to ensure that paper copies are provided to employees at office sites across the country. If you are still not getting access to any of this material, you should contact your local HR manager or your line manager to gain access to it.

15) Q: What happens if I apply for a job, am successful in my application but then decide to decline the offer?

A) If you apply for a role, we will assure that you have done so 'in good faith' and are both interested in the position and willing to commit yourself to it if offered the role – declining an offer indicates that you are not interested in working for the Company. In this case you will be declining a "job offer" and effectively resigning or retiring from the Company. Naturally if the job you are offered is at a lower level/salary than your current position, this is a different structure and will be discussed with you at the time the offer is made. In these situations, individuals will still have the enhanced severance terms as an option.

16) Q: When will I know if I have been shortlisted for an interview and who will be conducting the interview?

A) Candidates who apply for positions that were posted on the 3rd and 10th of March should know that they have been shortlisted by March 26. Individuals who have not been shortlisted for an interview will receive some basic feedback from the relevant line manager or HR manager that will explain how that decision has been arrived at. The hiring manager for that position will interview those who are put forward for an interview.

17) Q: What happens after this round of interviews?

A) If you are successful in the interview process, you will go through to the final assessment centers. If you are unsuccessful, you will receive feedback.

18) Q: We currently have different benefit packages in American Water in varying locations. Will we be standardizing benefit packages throughout the Company?

A). We are ensuring that the benefits we provide are market driven. This will mean that ~~we provide different benefit packages for different types of work and in different types of~~ business environments. This is in line with our business model principles. We are committed to providing benefits (and salaries) that will attract, motivate, reward, and retain talent in the company.

19) Q: I turn 55 this year and was thinking of retiring. Will I be allowed to submit my retirement with 2 months notice as required, and be allowed to retire with health benefits?

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A) RWE has agreed that subject to applicable law and collective bargaining agreements, it will cause the surviving company to provide lifetime medical and life insurance benefits at the same level as, and at the same cost (if any) as, in effect immediately prior to the date of the merger (1) to all covered current retirees (as of the date of the merger) and (2) all covered employees of our company and its subsidiaries who, as of the date of the merger, have satisfied all applicable eligibility requirements for the purposes of our retiree medical plan as currently in effect at such time after the merger as the employees retire." Since January 10, 2003, a number of non-union employees who have satisfied all applicable eligibility requirements for the purpose of being provided retiree medical benefits have raised the question as to how the two above provisions of the RWE/Thames merger agreement impacts them.

Some have raised the question as to whether or not they must retire during the next 12 months in order to benefit from the promise of lifetime retiree medical benefits. Others have raised the question as to whether or not they will also benefit from the promise of lifetime retiree medical benefits if they become eligible for retirement prior to January 10, 2004 (or July 10, 2004).

Union-represented employees have not raised this question because the continuation of their retiree medical benefits is subject to collective bargaining.

Continued retiree medical benefits beyond the 18 months following the merger are guaranteed to only those who were retired or became eligible to retire ("Rule of 70") on January 10, 2003, the date of the merger.

Employees who become eligible to retire after January 10, 2003 are assured that their retiree medical benefits will remain in place for 18 months following the merger. However, they have no assurance of retiree medical benefits after the end of the 18 months whether they are retired or not. These employees are in the same position and have the same benefits available to them as were in effect prior to the merger. The company has maintained the right to modify or terminate benefits at any time. The RWE merger agreement does not provide retiree medical benefits to retirees or employees who previously did not have them.

20) Q: I am a non-union employee who is eligible for health benefits upon retirement, I was informed that if I am displaced I must retire on or before the date I leave the company to retain my health benefits and that I will be eligible to receive the enhanced severance. Is this true?

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. Only~~ employees who were eligible for post-retirement health care benefits as of the date of the merger are eligible to receive the benefit commitment in the merger agreement.

21) Q: Are retirees eligible for unemployment insurance?

A) You should consult your state unemployment office to determine if you are eligible to collect unemployment insurance. Unemployment laws differ in every state.

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22) Q: What are the details of the severance package?

A) The severance package has been outlined below.

SEVERANCE PAY

- One week of base pay for each full year of service with a minimum of four weeks up to a maximum of 20 weeks
- One and one-half weeks of base pay for each full year of service beyond 20 years to a maximum of 52 weeks
- Part-time employees receive pay based on hours worked per week but are not eligible for health care, outplacement or employee assistance

HEALTH CARE

- For all employees who are eligible for continuation of coverage under COBRA, the company will pay the associate's COBRA premium based on years of service. The employee will be granted one week of company paid COBRA for each full year of service with a minimum of 1 month and maximum of 6 months. (period of coverage rounded to the nearest full month)
- Employees who are eligible to commence retirement under the company's pension plan and are eligible for continued post-retirement health care will not be eligible for company-paid COBRA

OUTPLACEMENT

- Terminated employees will receive professional outplacement services to assist them in transitioning to other employment as follows:

<u>Title</u>	<u>Length of Program</u>
Vice President /Director	up to 6 months
Managers	up to 4 months
Supervisors	up to 3 months
All Other Exempt	up to 2 months
Non-Exempt	up to 1 month

- Outplacement services will be provided by Right Management Consultants
- Outplacement can not be exchanged for additional severance pay

EMPLOYEE ASSISTANCE

- Terminated employees and their dependents may continue to access the Employee Assistance Program through Carebridge (800.437.0911) for 6 months

FURTHER QUESTIONS

- Please direct all questions and/or concerns to your local Human Resources department

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23) Q: Why did Jeremy Pelczer make a discretionary payment to employees and how were people selected to receive a payment?

A) Jeremy recognized that 2003 was an exceptional year during which the merger with RWE/Thames Water was completed and the business faced a number of challenges with the external business market, and the weather, and also invested a lot of internal energy on integrating American Water into the RWE family. In spite of our not achieving our financial goals during 2003, progress was made in the business and Jeremy sought to recognize the efforts and contributions that employees made to our success. It was felt that a lot of good work had been undertaken by a large number of employees and that this should be duly recognized with an award. Although no payment was made to any business unit under the Annual Incentive Plan, unless they achieved their targets, these discretionary payments have been awarded to exempt employees who did not receive overtime payments for their discretionary efforts.

24) Q: What is happening with the 2004 Annual Incentive Plan?

A) We are currently finalizing the communication material that supports the 2004 Annual Incentive Plan. We anticipate this being communicated within the next week or so. The 2004 Annual Incentive Plan will cover the same eligible population as the previous American Water annual incentive plans but the design of the plan will be more aligned with RWE's policy and practice. This will be explained in full in the communication material.

25) Q: Will there be a voluntary severance or early retirement program made available to employees?

A) We have no plans to provide a voluntary severance or early retirement program for employees. This is because we value the skills, expertise and experience of our employees and are reluctant to enable this valuable experience to leave the business in a way that we cannot manage and effectively control. Maintaining our operational integrity, the quality of our customer service and enabling growth of the business are essential parts of our strategy. A program that enables an "early out" to occur can damage the core capabilities of the business. The phased approach we are taking to restructure the business and select the best internal candidates for the roles provides the best mechanism to ensure that we can retain the 'right people in the right place.'

26) Q: What are the rules that govern the access to the enhanced severance package?

A) Individuals leaving the business can do so with the enhanced severance terms that include the provision of outplacement support on the basis that they sign the normal release documentation. Individuals who are in this position will receive clear information on their rights, duties and obligations and will have an opportunity to seek legal counsel before making any irrevocable decisions. The severance packages are available to employees whose positions have been eliminated as part of the restructuring or to those whose ~~positions have been materially changed as part of the restructuring and have been unsuccessful in their application for a new role.~~

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

A) Each of the regions and the business center functions will be responsible for determining which of their administrative support positions are impacted by the

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restructuring. They will then post the affected positions and manage an appropriate selection process for assessing applicants.

28) Q: What is the role of a center of excellence?

A) We are establishing centers of excellence for a variety of the activities we rely on. For example, a center of excellence may be located in a state or region that has a large proportion of certain types of facilities, and that has one or more individuals who are proficient in dealing with that type of facility. A center of excellence may reflect an individual or a group of individuals with specific expertise, for example: our dam experts are in Pennsylvania; our Commercial legal expertise is based in Voorhees. We do expect centers of excellence will be located in a variety of different areas of our business, and they will provide knowledge, experience, and support that benefit the whole Company.

29) 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'.

30) Q: There were a number of positions that were listed with the location as "to be determined". How can I find out more details on these roles?

A) In order to attract a broader range of candidates, the hiring manager has decided to be flexible on location. You are advised to contact the hiring manager to discuss the role(s) and its location.

31) Q: Job titles on the regulated and non-regulated sides of the company are different. Could a chart showing job titles with job responsibilities be shown for both sides of the company?

A) No comparison chart currently exists, but these differences will be addressed as the transfer of the O&M contracts into the regulated business occurs. Employees should be able to identify comparable roles by looking at the current structure charts and role descriptions. If you have any questions relating to a specific role, your local Human Resource representative or the hiring manager will be able to assist you. Job titles are being reviewed and will be consistently applied in the new structure.

32) Q: Some of the administrative roles have changed and so have some of the titles. What is going on?

A) As we have reviewed the roles in the structure, we have begun to conclude that we have ~~too many grades, titles and layers in the organization. We also have a system that derives~~ salaries based on job titles and the hierarchy of reporting relationships rather than job size and market pricing. In the future, it is the size of your role (accountability, and know-how required) that will be 'priced' in the job market to determine salaries. One of the areas in which we feel some added simplicity can be provided is in the area of administrative assistants where we have agreed that there will be two broad categories of administrative assistants ("executive" assistants and "administrative" assistants). As this approach is consistently implemented across the business, the implications for current administrative employees will be explained to them. The "no detriment" obligations under the RWE

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merger will, of course, be honored for any employee who is impacted but we anticipate that the titling changes will not have a material impact on salaries, responsibilities, etc. We will be simplifying the grading structure and consistently use new job titles as we 'delayer' the business.

Jeremy Pelczer, President and CEO will be doing a short communication next week that gets out his philosophy on these important matters. The way in which we manage pay, grading and job titles will be changing in the restructuring processes. Benefits, though under review this year, will not change until next year at the earliest.

33) Q: Should employees in the shared services areas of the business (shared business, IT, customer center, financial shared services) be applying for jobs elsewhere now?

A) Any employee who sees a position advertised that provides them with good career opportunity, is a good match for their skills and experience and for which they have a genuine interest, is very welcome to apply. Employees in the shared services areas of the business are aware that Bob Collington, VP Customer & Shared Business Services, is currently reviewing with the senior management team the activities within shared services. Bob plans to announce any changes arising from that by the middle of May. If any individual has any particular questions, comments or constructive suggestions to make about the review of these parts of the businesses, they are advised to contact their line manager or Bob Collington directly. Once again, all employee inputs to this process are to be welcomed.

34) Q: I have heard that the old Southeast Region businesses are now going to be reporting directly into Bob Ross, the Regional Managing Director in Hershey in the new functional structure. Is this the case?

A) We have confirmed recently that Chris Jarrett and Roy Mundy will be focusing on our external stakeholder matters, managing our position with regulators, the commission and politicians (particularly as we defend our position against the threat of condemnations) in the Southeast. The business in Kentucky will be managed in line with the general Business Model Principles and will report on a functional basis into the Regional Directors based in Hershey. These changes will be managed in a sensitive way in the coming weeks but they will ensure that the Southeast states are aligned with the remainder of the region and American Water as a whole.

35) Q: It has been stressed that the Company is emphasizing the growth agenda. How do we reconcile the two goals of efficiencies (which lead to headcount reductions) and growth?

A) The goals of growth and efficiency are not mutually exclusive. In fact, to facilitate our growth, we need to become as efficient as possible and build our reputation for operational integrity and customer service. We will grow the business by having the most efficient processes and systems and the most capable people. The current restructuring will enhance our operations and enable us to win new business. We are investing in the business with new technology, systems and processes. We are also investing in people by developing individuals (e.g.: through the license to manage program and our business development training which will be rolled out in May of this year) and by attracting talented individuals to the Company to help us grow.

36) Q: Is AWS going to exist after the reorganization?

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A) AWS, as it currently stands, will no longer exist when the restructuring has been completed. However, we will retain our nationally organized and run business lines which provide products and services to our clients, and which will continue to add value to the corporation. These will continue to be managed as a group of non-regulated national business lines. The O&M and DBO side of the business is being migrated into the regulated regions. This will be completed when each project has been reviewed and individual transition plans drawn up. The regions are getting ready to take on these operating responsibilities.

37) Q: I've heard that some of our non-regulated businesses are being sold. Is this true and, if so, why?

A) We are currently selling two of our non-regulated business lines (Ashbrook and Leopold) and hope to conclude those sales within the coming days. Businesses that no longer fit our strategic plan will be sold at a time when we can ensure that we obtain an appropriate sale price for these businesses. Ashbrook and Leopold have been long-standing companies within Thames Water and have consistently added value to the group. The decision to sell them is a consequence of our recent strategic review.

38) Q: In the last set of questions and answers received on 10 March, there was reference to "expats" (British and Germans from RWE/Thames Water who are currently working here). I'm interested to know how many of them are here and if it is RWE/Thames' policy to put "expats" into businesses they have acquired?

A) Currently, we have 30 expatriates in North America, and by the end of 2004, this number will have reduced to 15. By the end of 2005, the number of expatriates is anticipated to have reduced further to approximately 5. It is the policy of RWE and Thames to encourage mobility of employees around the world, both for the individual's personal/professional development and to benefit the business through the sharing of best practice, knowledge and experience across the family of businesses.

The CEO of RWE, Harry Roels, favors having a cadre of mobile professionals who can add considerable value in businesses around the world and is encouraging RWE to adopt a more flexible and mobile workforce. This is a key strategic driver for RWE; to build our global capabilities. American Water employees have an opportunity to be a part of this "internationalization" of the business.

In the same way that American Water has typically put its own people in to manage businesses that it has acquired, RWE/Thames Water has usually appointed a variety of 'expats' into the businesses it has acquired to provide for effective integration, governance and control, and knowledge sharing. This is very much a two-way street and employees are encouraged to consider taking on roles in other parts of RWE. If anyone is interested in an overseas assignment, they should contact their HR manager or Jerry Bailey, Director of Employee Relations.

39) Q: What's happening to the military contracts group?

A) The military group is a key part of our strategy to grow the business. Within the next two years there are a number of significant military contracts coming up around the country that American Water is superbly placed to win. A combination of our reputation,

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our expertise and our operational footprint ensures that we are highly competitive in this market. These military contracts are often of up to 50 years in duration and are exactly the right fit operationally and strategically for us. Our goal is to capture as much of this market as we can and we have a dedicated Business Development team working on these projects, managed by Bill Malarkey, the VP of Business Development. Bill's task is to ensure that we deliver on our growth plans with the military contracts and to also to work with Walter Lynch, Managing Director of Products and Services, to ensure that the operating military contracts that we already have are successfully transitioned into the regulated businesses. In other words, the Business Development activities for the military business line are handled nationally and the operational elements of the military business line are being transitioned into the regions.

40) Q: I have seen that a new role for VP of Wastewater has been designed for the structure. Why do we need this role and what will it be doing?

A) The new VP Wastewater will be responsible for ensuring that our wastewater business grows in line with our business and strategic plan. Initially, our key objectives are to focus on the Southeastern and Northeastern regions and within our existing water operations, to expand into wastewater. The new VP will coordinate this activity and ensure that we have the operational and technical resources to grow and deliver wastewater contracts and will be working through the Regional Managing Directors and regional business development directors to accelerate our growth in this key area.

41) Q: Can you confirm that the whole business is being reviewed and restructured?

A) We started the restructuring with the Regions, then the Business Center at Voorhees, and now we are focusing on the Shared Service functions. Bob Collington is currently undertaking a review of Shared Services and the Customer Center and the same business principles and depth of analysis is taking place for these parts of the business as has been done for the regional reviews and the other functions at the Business Center. Bob plans to communicate the outcomes of this review by the middle of May. The whole business is being reviewed in line with our Business Model Principles.

42) Q: Will the role that we currently play in the communities that we serve be impacted by any of the organizational changes taking place now?

A) Our business is, and always will be, a local business. The quality of the service that we provide locally and the integrity with which we undertake all of our activities in that community will be the yardstick by which we are measured and will determine how successful we are as a business. It is our intention to maintain or enhance our position within the communities that we serve, and to focus our activities here; we have created a role at the Business Center, Corporate Social Responsibility (CSR). This ensures that we have a constructive and proactive local presence and are perceived in a positive and consistent way in the communities.

For each of the communities that we serve, a single individual will have responsibility for managing our external stakeholders and will be our face to the customers and opinion formats in the community. In the new structure, this is the network manager role in the organization, but occasionally (depending on the size and scope of the local business) there may be a "general manager" who covers both network, production and other functional responsibilities. It is through these key positions that we will be maintaining our local focus. These roles will be supported by the regional external affairs teams.

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43) Q: I'm concerned with losing expertise and knowledge within the company during the restructuring process. How will American Water make sure we don't lose key people?

A) During times of change, businesses do run the risk of losing key people. Our goal is to retain the people in the business who can make the greatest contribution to our business success. This means we are seeking to retain a diverse pool of talent, skill and expertise as we go through the selection process. We are also working best to build a knowledge sharing culture and are creating "knowledge communities" which will help us to leverage the knowledge and experience we have across the business.

44) Q: When will these restructuring changes be finished?

A) The Phase 3 & 4 restructuring will be completed by the end of July 2004 and by that time all exempt employees should have clarity about their personal position. Where there are parts of the business that require further analysis this will be undertaken in the same way as in Phases 1-4 (i.e. business needs analyzed, structure & roles designed, communication, posting of new & materially changed jobs, selection and appointments)

It is important to recognize that change is on going, and the organization will continue to evolve. There will continue to be significant positive changes in the business as we invest in new technology, systems and processes over the next two to three years and this will have an impact on all of us.

45) Q: I've been confirmed in my job and I'm grateful that I have a more certain future, however, I feel bad for my colleagues who are still waiting to find out what happens to them and for those who are leaving the company. Are other people feeling like this?

A) All of our practical experience of managing change, particularly of this nature, and the external research and writing on this subject characterize these feelings of remorse and guilt as being absolutely normal. Those employees who "survive" organizational changes often have some difficulty coming to terms with the changes that have happened and it can take time before they can come to terms with the experience.

Many companies have come to recognize that individuals who are provided with continuity of employment after organizational changes need to be looked after as well as those who are leaving the business. Many companies invest a lot of time and energy in assisting employees to leave the company in a dignified way through outplacement and counseling, etc., and sometimes forget about the feelings of people who are left inside the organization. Once the reorganization has been completed for our management and supervisory group, each functional head and senior manager will be pulling their teams together and refocusing them on the challenges ahead and the future of the business. This activity is likely to take place in September and Jeremy Pelczer will be providing some guidelines to support managers in building their new teams at that time

46) Q: I'm struggling a bit with the organizational changes, not knowing what my fate is and I'm unsure whom I can talk to about things. Is there anywhere I can go for help and advice?

A) You are encouraged to discuss matters with your colleagues, your boss and with your HR professionals—all of who have an interest in your well being. Much benefit can be derived from simply sharing how you feel and realizing that you are not alone in facing

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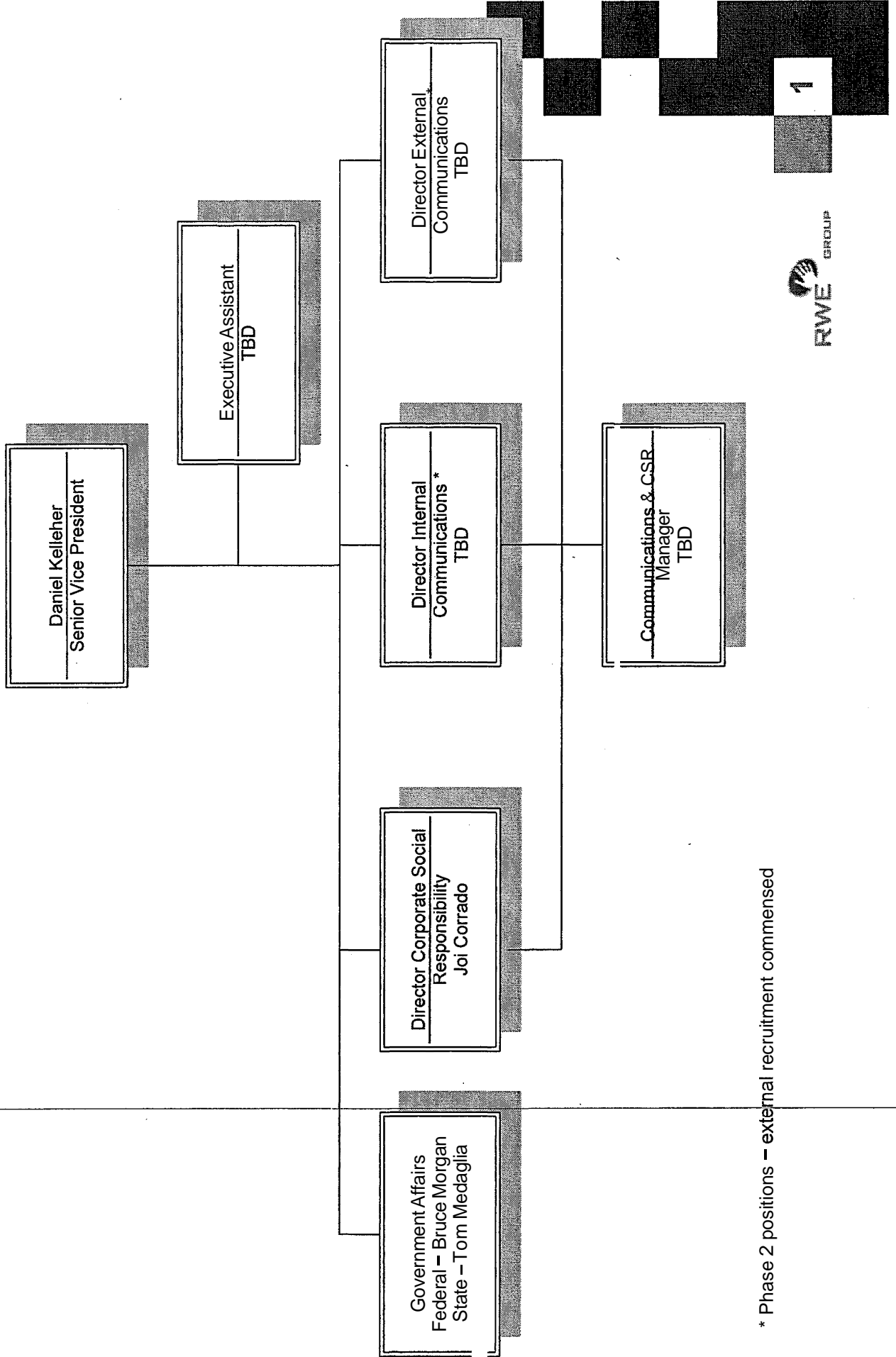


your anxieties. The Employee Assistance Program also provides employees with an opportunity to discuss any feelings that they may currently have. The Carebridge telephone number is: 1-800-437-0911. Employees are encouraged to take advantage of the employee assistance help line if they have any specific issues and Carebridge provides support for those facing stressful times related to work, finances, relationships and family matters.

47) Q: Is it true that we are being managed and rewarded based on our results—not just our hard work?

A) It is an important part of our performance culture that employees are recognized and rewarded for delivering results. We have many employees who are highly committed and work extremely hard on our behalf. But, what actually matters is what is delivered. The contribution that each of us makes to achieving our goals in terms of operational excellence, customer service and business growth will determine how we are rewarded and, indeed, what opportunities remain open for us within the organization. We are increasingly being measured on not just the financial performance that we deliver but also all the other elements of our performance. The Balanced Scorecard and the new performance management process being rolled out in the License to Manage initiative are all mechanisms which reinforce the combination of what we do and the way that we go about doing it, i.e., the behaviors which should be in line with our values. It is the combination of all of these things that will determine our pay, our promotion opportunities and the success of the whole company.

Business Center – External Affairs



* Phase 2 positions – external recruitment commenced





Memo

To All American Water Employees From Jeremy Pelczer
Date April 14, 2004 Phone 856.346.8302
Subject Organization Restructuring – Phase 3, Wave 2 Fax 856.346.8300

Dear Colleague,

I am pleased to announce the final wave of the Phase 3 organizational restructuring. In my March 24th communication, I shared with you details about the scale of the restructuring process. Today we have posted more than 80 positions and have included more detailed structure charts for each of the regions, in addition to details of how our engineering function will be structured.

Please find enclosed:

- Structure charts for the Western, Central and Southeast Regions
- Northeast Region Engineering structure chart
- Structure charts for Business Center Legal, Property, Engineering and the Military Group
- Detailed Q&A's
- A table which outlines the key steps in the restructuring process

As we progress through the restructuring process, inevitably, each subsequent step is more challenging compared to those which preceded it. As more positions are defined by hiring managers, the position descriptions are then finalized and a salary is established that is competitive in the market place. That process is proceeding just as quickly as possible, while maintaining the quality and integrity of the restructuring and selection decisions that are so important to our future.

I also realize that despite the best efforts of the team involved, the process does not allow us to provide salaries for every position at the time they are posted. I can assure you that we are sensitive to the significance of compensation in the decisions each employee must make concerning their personal circumstances. We are committed to providing salary information just as soon as it is available for each position, and no later than the date by which a position is offered to an individual. There is a trade-off between speed to remove the uncertainty in the organization as fast as possible, and ensuring the quality and fairness of the process. I will continue to closely examine feedback to meet our desire to get the right balance.

There is never a perfect process for going through a restructuring such as we are undertaking. Our team of managers which have been appointed in previous phases supported by Human Resources, are doing their very best to create the structure that

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Memo



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will make us successful. When we collectively act in good faith, with respect for each other, I am confident we will be able to overcome any difficulties that may arise.

I have commented in the past on how impressed I am with the quality of feedback that I have been receiving from employees across the business. To date, we have received more than 120 questions to our letsachieveit@amwater.com site. Those questions, as well as the ones I am receiving during my roundtable dinners and lunches with employees, and during meetings in different parts of the business, underscore for me that you continue to believe American Water can be more successful, and that the restructuring process we are undergoing is needed. With your continued support and commitment to making American Water even better than it has been, I believe the business has a very bright future indeed.

As always, thank you for your patience, understanding, and continued dedication to serving our customers.

Jeremy Pelczer
President & CEO
American Water

April 14 2004

Restructuring Process

What Happens in the Process?

I—Draft structures released

- Draft structures released
- Managers begin to advise teams/individuals of imminent changes

What Does It Mean for Me?

- Speak to your line manager about the structure; actual/potential roles
- Ask questions of your supervisor, local communication/HR managers, or "Let's achieve it" email
- Get ready to apply—consider the type of work you want, where you want to work, update your resume, etc.
- Maximize your time. Consider your options early—even if you simply determine what you don't want to do, it will give you an advantage when the roles are posted.

What Happens in the Process?

2—Final structures communicated

- Formal structures communicated; with cover note from the President & CEO, and new Q&A's, etc.

- Jobs posted
Phase 3 - 3/3/04; 3/10/04; 3/24/04; 4/14/04
Phase 4 - 4/28/04
(roles which have not been agreed by this date may need to be posted later)

- Individuals are advised they are in one of three categories:
 - Type (a) confirmed in post
 - Type (b) "at risk" because their role has materially changed
 - Type (c) "at risk" because their role has been eliminated from the structure

What Does It Mean for Me?

- Read all the material. Seek to understand what is going on. Ask questions.
- The better informed you are, the easier it is to respond proactively to the changing work environment. The more proactive you are, the better you will feel.

- Look to roles that are (1) relevant to your skills and experience (2) of career interest to you (3) at a location you are willing to work (4) a "good fit" for you
- Match your profile to the roles and get ready to apply within the posting deadline

- See "3" below for your actions etc

What Happens in the Process?

3—Individuals make decisions

- Type (a) confirmed in post

What Does It Mean for Me?

- Stay in Post No material change to accountabilities; position and structure. Potential job title changes in line with the rest of the company. Begin discussing your objectives and KPIs for the year with your supervisor; commit yourself to your ongoing role in the structure.
- Decide to Retire If you are eligible to retire, you can elect to do so under the normal rules of the plans. You can elect to retire, once eligible, with 60 days notice, at any time in the process. Agree date of retirement with your supervisor. Contact the Benefits Call Center at 866-888-8269. Your line manager will then post your role to ensure a managed succession and open access to the role. Agree on a hand-over plan with your line manager. No severance benefits will be provided as this is a normal retirement.
- Decide to resign If you are not interested in the role and are not eligible to retire, you can resign from the company. No termination benefits or severance will be provided. This is a normal resignation.
- Remain in the role but pursue other roles that have been posted assuming you are a 'good fit' and are interested in them.

What Happens in the Process?

3—Individuals make decisions

- Type (b) Job materially changed
and
- Type (c) Job eliminated

What Does It Mean for Me?

Decide to *apply* for one or more roles:

- Apply on time, ensure your resume/application reflects your skills and experience which are relevant to the role you are applying for and that you are a good match for the role and its requirements. There will be no adverse impact, if you apply for more than one role. Your application will be received in 'good faith' (i.e., the hiring manager will assume you have a genuine interest in the role and that if you are offered the role, you will accept it.)
- Seek any additional information on the role you are applying for from the hiring manager listed on the job posting. The more information you have about the role, the better prepared you will be at the interview and assessment stages.
- Salary information on posted roles is generally not available at this step in the process as the new roles are being "market priced" to ensure salaries are appropriately positioned for the roles. Salary information will be provided as soon as possible

Decide not to *apply* for a role:

- Review the job postings and, if you decide that none are appropriate for you (not a good match/location/career move, etc.), then you can leave the Company.
- Exit the business with eligibility for the enhanced severance terms (and retirement if eligible); outplacement and sign the release form provided by your local HR team.
- Work with your local HR team and the Benefits Call Center to ensure all the normal compensation and benefits matters are dealt with effectively.

- Work with your supervisor to agree a hand-over plan, and to agree on a separation date. If you are retiring you will need to give 60 days notice

What Happens in the Process?

4—Shortlisting of Applicants (for type (a), (b) and (c))

- Hiring manager produces a shortlist of candidates from the applicant pool to interview.

- Candidates not identified for interviews receive confirmation of the decision and receive feedback

What Does It Mean for Me?

- Invited to attend interview
- Prepare for interview
- Attend the interview (take relevant information with you: current resume, evidence of career successes, job description of the role you have applied for, questions you want answers for, etc.).
- You have the opportunity to withdraw your application at this stage and if your role has materially changed or been eliminated, you can still leave the Company with severance (and retirement, if eligible)
- Seek to understand the feedback and discuss your options with your HR manager
- Discuss the potential for future relevant jobs being posted with your managers/HR manager prior to making any decisions
- Apply for positions in the next Phase, or
- Exit the business with eligibility for the enhanced severance package (and retirement if eligible), if your role has been materially changed/eliminated and you have been unsuccessful in the selection process

What Happens in the Process?

5—Interview (for type (a), (b) and (c))

Candidates have interviews with hiring managers and the outcomes will be:

- Candidates are put forward to formal assessment center

or

- Candidates are not put forward to the next stage after the interview with the hiring manager

(In phase 3 the interview stage is separate from the assessment center; for some roles in phase 4 they will be combined at a single event)

What Does It Mean for Me?

- Prepare for interview
- Attend the interview (take relevant information with you: current resume, evidence of career successes, job description of the role you have applied for, questions you want answers for, etc.)
- You have the opportunity to withdraw your application at this stage and if your role has materially changed or been eliminated, you can leave the Company with eligibility for the enhanced severance package or retire if eligible

If you are not selected to go to the assessment center:

- Discuss the potential for future relevant jobs with your line manager/HR manager
- Remain in your 'confirmed post' if appropriate
- Apply for positions in the next Phase, if appropriate
- If your role has materially changed or been eliminated, you can leave the Company with eligibility for the enhanced severance package or retire if eligible

What Happens in the Process?

6--Assessment Center

- Candidates are informed of the dates and location of their assessment
- Attend assessment center and receive immediate feedback

What Does It Mean for Me?

- Confirm your attendance as soon as you can to Gail McDevitt (telephone - 856 346 8303, email gmcdevitt@armwater.com)
- Expect your "pre-work 2 working days prior to attendance at the assessment center
- 'Be yourself' at the assessment center
- Be receptive to the feedback
- Look out for the written report you will receive later and use it for your personal development

What Happens in the Process?

7—Selection Decisions

Formal review of all assessed candidates.

Hiring managers and review panel make selection decisions

Hiring/HR managers communicate selection decisions to all participants (successful or unsuccessful)

Salary details will be provided with formal offers to successful candidates at this time at the latest

What Does It Mean for Me?

- If you are offered a position, you can choose to accept it:
 1. Confirm your acceptance to the hiring manager
 2. Agree a hand-over plan with your current line manager, if appropriate
 3. Begin discussing your objectives and KPIs for the year; commit yourself to your ongoing role in the structure
- If you are offered a position, you can choose to turn it down:
 1. Think carefully about your decision and seek advice from HR or your Manager
 2. If you choose to turn down a role, without 'good reason'; where an offer is made in 'good faith', this decision may constitute a resignation and as a result you may not be eligible for severance or unemployment benefits.
 3. If you have 'good reason' to decline an offer (e.g. location/salary issues) then you will be eligible for severance/retirement benefits (retirement, if eligible).
 4. Please note that if your role has been eliminated or materially changed the process provides several opportunities for individuals to opt out at every stage and to do so without jeopardizing your ability to take severance
 5. In exceptional circumstances you may be presented with more than one offer: you should choose the role which interests you most/matches your career aspirations. Discuss the pro's and con's of your offers with HR

- If you are not successful in your application, you should discuss your options with your local HR manager and supervisor. Your options may be to:
 1. Apply for positions in the next Phase, if appropriate
 2. Remain in your 'confirmed post' (if appropriate)
 3. Leave the company with eligibility for the enhanced severance terms (and retirement, if eligible) if your role has materially changed or been eliminated

Phase 3, Wave 2
Questions & Answers
April 14, 2004

Strategy and Structure

Q1: What is happening with the review of the Customer and Shared Business Services parts of the business?

A: Bob Collington and his leadership team in the Laboratories, Call Center, Shared Services, Procurement and ITS groups are engaged in a review of their functions. This is scheduled for completion in time to be communicated on April 28th with the Phase 4 posting.

The review is considering factors such as the consolidation of laboratories into a Centre of Excellence and the need to provide services to our growing wastewater business; aligning the ITS group with the new regional structure, ensuring that the STEP project (technology and process changes) is adequately supported and can be implemented; the opening of a second call center; implementation of the SAP Customer System (CCS) and providing services for operating & maintenance contracts; effecting a smooth transition of some Finance and HR activities from the Business Center into Shared Business Services; and integrating the financial services for Products and Services into the Shared Business Services Center.

Q2: When will the final versions of the structure charts be communicated?

A: We plan to release the final structure charts for all exempt positions up to and including supervisory roles on April 28th when we post the Phase 4 positions

Q3: The March 4, 2004 communication indicates Phase 4 will include superintendents and supervisors. Is a Project Manager in AWS who manages a facility for a municipal client the same as a superintendent in the regulated utility business?

A. A project manager in AWS who manages a facility may have a role that is similar in size and scope to a superintendent or supervisor or other similarly titled managers in our regulated utility businesses, however, each of these roles could potentially be different and it would be wrong to assume that they are the same. Any position that is posted has a job description attached to it that will clarify the content of the role.

Q4: Why have some lower level positions from the published organization charts been posted in Phase 3 in some regions and not in other regions?

A: The Phase 3 structure charts that have been communicated to date included the roles that we have posted so far and other levels in the draft structure that have not yet been posted. Further work is continuing to define the roles and reporting relationships and to refine the job descriptions. Some regions have been able to go deeper into their organizations at this time than others. The Regions have been working with their management teams to complete this complex task. The plan is for all exempt positions to be posted along with the final structure charts by the Phase 4 posting on April 28th.

Q5: Phase 3 has had a number of posting dates. Will this happen for phase 4?

A: We plan to post the remaining exempt positions and the final structure on 28 April. However, it is possible that a few roles will be posted in the following week or so, if for some reason the final details have not been agreed.

Q6: Some of the AWS employees working on O&M contracts for municipalities are unable to access the Internal Posting System because there are technology difficulties. As a result, they cannot view internal job postings. How can we make the information available to them, as it is available to everyone else?

A: Your line managers and the HR managers for your business unit have a responsibility to ensure that you receive notification of opportunities that exist elsewhere in the business. If you cannot obtain electronic copies of these, they will make arrangements to ensure that paper copies are available to you. If you are still not getting access to this material, you should contact your local HR manager or your line manager to gain access to it, or send an email to letsachieveit@amwater.com, so we can be sure you are able to participate fully.

Q7: I recently noticed the advertisement of engineering jobs with Applied Water Management Company (a non regulated subsidiary based in Central New Jersey) on an external job search **website**. Why haven't these engineering positions been included in the restructuring selection process, especially considering the pending impact to Northeast Region Engineering and System Engineering employees?

A: Thank you bringing this matter to our attention. We did find an inconsistency in the process, and have ensured that in the future, all of our business units are aligned with our resourcing activity. Positions that are advertised externally will be posted first across the system, so that interested internal candidates have an opportunity to apply for these posts.

Q8: Many of the positions in Phase 3 seem essentially the same, however, the job titles and classifications seem different or lower. Is this a company wide approach to reclassify positions to lower levels? If so, will there be an overall salary reduction to try to reduce the company's operating costs?

A: Positions that have materially changed or that are new in the structure have been defined and posted. These new jobs in the structure are being market priced to ensure that we pay competitive salaries for these roles. It is not the company's intention to underprice or undervalue individuals and roles and it would not be in our interest to do so. Job titles are changing to reflect a more consistent approach and to provide a simpler way of describing what people actually do in their positions. When individuals receive an offer for a position, they will be offered the salary appropriate for that job. This may be an offer with a higher, same, or lower salary level than the successful candidate currently receives, and will be at a level determined by the analysis of the market rate for the role.

Q9: Is it accurate to say that in light of the pressure to minimize rate increases and the frequency of rate case filings that the amount of capital expenditure will be very minimal at least in the short term?

A: Our investment program is not "minimal," even in the short term. In fact, because there are fewer large projects to be constructed, we are spending more on replacement and renewal than in some prior years. We remain committed to investment in our utility systems to ensure ongoing quality and reliable service. We will continue to meet the needed investment in both the short and long term. Last year and this year we are catching up from delays in rate filings caused by the merger approval. We do wish to return to a more normal cycle of rate filings, but doing so will not jeopardize quality of service or reliability. Rate cases are a part of the water business, and we present our cases in an open and transparent way for all of our customers to examine and for regulators and elected leaders to scrutinize.

Q10: American Water has gained a reputation for maintaining excellent water quality testing and assurance programs. Will the changes being announced place that reputation at risk?

A: Absolutely not. The integrity and reliability of our water quality programs, and all other elements of our operation, remain a top priority. As with many other functional areas, we are trying to make the most effective use of our organization size and scope to achieve the best result at the best efficiency. We believe these changes will result in as good as, or better reliability than we have had in the past. In fact, this is such an important area, if any employee has a question or concern, we encourage you to send an email to letsachieveit@amwater.com so your question or concern can be addressed. We would also encourage you to bring forward your suggestions for improving our water quality and customer service through the Ideas Into Action program.

Q11: When a person takes a position with the same title is it a promotion or a lateral move?

A: The job titles of the roles don't necessarily confer grade, salary, or status to an individual. It is actually the size of the job (the skills, knowledge and experience required to fulfill the accountability, the dimensions of the job and its scope and impact on the business) that determines the salary level. Those factors will ultimately determine the level of the role in the structure.

We are concentrating our efforts on filling roles with people who have a good match of skills and experience to the role requirements. We are also ensuring that these positions are appropriately market priced and that individuals who are appointed to them receive the pay and benefits that match the market.

Q12: What are the plans for the Business Change team once the goals are accomplished?

A: The Business Change team is a temporary feature of the organization and will remain in place only until the major Business Change projects have been completed. Some of the projects, like the technology and process changes under the banner of the STEP project will continue for the duration of the five-year business plan. Individuals who work in the Business Change area are absolutely aware of the temporary nature of their roles. They are able to compete for opportunities in the same manner as anyone else in the organization.

Q13: Approximately how many employees will be affected by the Phase 4 re-structuring? And from that total what percent is expected to be in the Shared Business Services Center?

A: It is too early to tell how many employees will be affected by the Phase 4 restructuring and because we are posting all materially changed or new roles, there are also new opportunities for people in the levels below those posts to apply for jobs and attempt to enhance their careers.

It is also too early to tell what proportion of jobs in Phase 4 will be made up by the Shared Business Services group. Shared Business Services and the Customer Center are subject to separate reviews being led by Bob Collington. Results from the review will be communicated on April 28th as part of the Phase 4 announcement.

Q14: Who or what is a Line Manager?

A: There are two terms commonly used: "line manager" and "front-line manager". Both terms describe someone who has supervisory responsibilities for a group of individuals. For example, the supervisory position responsible for production staff at one or more treatment plants would be a line manager.

Q15: Even though my job seems to be safe, I strongly feel that my overall responsibilities will change. Will we be getting updated Job Descriptions for our positions? And, if so, when?

A: If your job materially changes, it will be posted in Phase 3 or 4 and a new job description will be completed. You will be advised of this by your supervisor. If your job does not materially change, then your current job description remains in force. However, in time, it will be formatted to be consistent with the style being adopted across the business.

Q16: In response to many questions, you indicate to talk to your local HR person or your supervisor. We don't have a "local" HR person. The supervisors get the same information as everyone else and at the same time, so how are the supervisors supposed to respond to questions?

A: We appreciate that many supervisors are receiving the same information as their teams and at the same time. That is the only way to communicate re-structuring information as quickly as possible. It is important that each supervisor obtain answers to questions on behalf of their team members. Every business location has an HR professional who is responsible for that area, even though they may be physically located elsewhere. We encourage you to find the relevant HR manager or a more senior manager in your business unit to answer your questions. If you are unable to receive information in this way, we encourage you to use letsachieveit@amwater.com to obtain answers to your questions.

Q17: Sometimes, the answers given to questions are not straightforward and cause even more questions. This leads to more uncertainty and distrust. We hope to see more concise answers given.

A: We are attempting to be as straightforward as possible. However, our organization is very diverse, so it is often necessary to provide more detailed answers to ensure as many areas are covered as possible. Since we are dealing with individuals who are often in unique situations, it is essential that we review each case before giving an answer. The answers we provide here are relevant for the majority of cases, but sometimes not all. You are encouraged to raise your personal questions with your local HR manager or the manager of your business unit.

Q18: What is the status of the Review of Engineering and R&T?

A: John Young and Steve Schmitt have been reviewing the engineering function, both at the Business Center and in the Regions, and consulting widely across the business as they do this. Their goal is to ensure that we continue to benefit from the expertise we have across the business and that we are positioned to deliver the capital and asset program now and in the future. The Research & Technology program name has been changed to Innovation and Technology to better describe the nature of the work involved. John Young and Mark LeChevallier are working with the businesses and our Innovation & Technology colleagues in RWE Thames Water in order to determine how best to deliver programs and leverage capability. This review will be completed by the middle of May. Today's communication includes details of the engineering function and structure charts for each region's engineering group.

Q19: In the newly announced structure charts for Engineering, it appears the Voorhees engineering group has simply been placed in the Northeast Region. Is that the intent?

A: No, there has been a very thoughtful shift in the approach to delivering engineering services. The intent is to capture the full value of our expertise by designating Centers of Excellence. The Center of Excellence for asset management of dams will be in the Southeast Region as that is where the greatest numbers of dams exist. The Center of Excellence for governance, standards and knowledge management will be in the Northeast Region because there is a core capability in the former System Engineering group, which can continue to serve the whole Company and further strengthen the Northeast Region's engineering team.

When we have completed our transition, we will have enhanced the quality and capability of our engineering function across the business by placing all engineers closer to the operating businesses and enabling our capabilities to be more effectively shared by all segments of the business.

Q20: The military area seems to have some potential for growth. Are we looking at this part of the market?

A: Today we have issued a structure chart for a new military group, and have posted a number of new roles. We are making a considerable investment in this area as we aim to capitalize on the opportunities. Military contracts which are being outsourced by the US government are long term projects where we can partner with the military to provide services. Adam McDonough is leading our initiatives and ensure that we successfully secure as many of these contracts as possible.

The roles posted for the military group include legal, bid management and technical positions.

Benefits, Pay, etc.

Q21: New salaries are being produced for the exempt jobs in Phase 3. How is this being done; what are the goals behind the approach; and is it different from what we have now?

A: Our approach to pay is largely unchanged and is intended to ensure that:

- We are paying competitive market rates for positions in order to ensure that we can recruit, motivate, reward and retain the talent we need to provide excellent service, maintain operational integrity, and to grow the business. The "size of the job" (the level of accountability, dimensions and the scope of the work, and the know-how required to deliver in the role) establishes the market rate for the job. This market-based approach also extends to the provision of incentives, both long and short-term where appropriate, and to benefits.
- We pay people for the value they bring to the company. The "value" of an employee is a combination of factors such as their skills, experience, knowledge, behaviors in line with our values, ability to learn new skills and adapt to our changing environment and, of course, their performance in their role.

To establish the market price of the jobs in the new structure, we have retained a highly respected consulting firm with expertise in this field. Each position we examine is compared to similar "size and scope" positions in other related businesses, and a rate is established.

Q22: In the "roadshow" I attended recently, I was told the benefits were being reviewed. What is happening?

A: Many employees have expressed continuing concerns about the future of benefits in the company. It is essential that we provide a benefits package that enables us to attract, motivate and retain high-caliber employees. Without an appropriate benefits package, we will not be able to compete for talent and we will not be able to ensure that we deliver the kind of customer service that matches our vision. Under the terms of the RWE/Thames Water merger with American Water Works, the current benefit plans are protected until the 18-month anniversary of the change in control, 10th July 2004. We have decided that the benefits that we currently provide (healthcare, etc.) will not be changed during the course of 2004.

We are undertaking a review of our benefits to ensure that they are appropriately designed and delivered to meet our needs. This includes ensuring that they remain competitively priced, effectively administered and appropriate for the various types of business that we have. Any changes that we make to benefits will be communicated well in advance of any effective date of change and where appropriate bargained with respective unions. We have an obligation to our stakeholders (regulators, customers, shareholders, etc.) to ensure that we are getting the best value for money from the benefits that we provide and that we are effectively controlling our costs. We are not alone in having to deal with these issues and we are working with a number of our

stakeholders, managers, unions, etc. to develop some options for the future that meet our goals of controlling our costs and providing a competitive benefits package.

Q23: What is happening to job titles? What is happening to the "officer" titles in the subsidiaries?

A: Job titles are designed to convey the activities that an individual is accountable for; for example: Regional Managing Directors head the team of directors who report to them in the region. We are revising job titles to more accurately reflect the jobs people have and to have a "common language" that works in a consistent way across our entire business.

In some cases, it is necessary to have certain officers for our business units to comply with state laws or regulations. In those cases, the officer title will be used only with regard to those corporate governance responsibilities.

Q24: If I get a job offer in the new structure, what will it include?

A: Our goal is to ensure that individuals know their title, salary, incentive opportunity (where appropriate) and job location when they are offered new roles. In Phases 3 and 4, individuals are not expected to accept offers without knowing the details.

Q25: It has been stated by Regional HR that the enhanced severance package will be offered to those who voluntarily choose to separate from the company during this time of transition. Please confirm, and explain any terms, conditions, or limitations that accompany this policy.

A: An enhanced severance package is not available to employees who choose to separate from the Company during this time of transition, unless their position has been materially changed or eliminated from the structure. An enhanced severance package is available to any employee whose position has been eliminated as part of our restructuring. Please contact your local HR manager or your manager for additional advice and guidance and to discuss your personal situation. Your HR Manager can provide you with details of the enhanced severance package for which you may be eligible.

Q26: I understand that retired individuals cannot apply for unemployment benefits, is this true?

A: Unemployment laws vary by state, therefore, if you retired as a result of the reorganization, or are planning to retire, you should contact your local unemployment office to determine any eligibility.

Q27: If my position has been eliminated in the restructuring process and I have chosen not to apply for other positions, what happens if I find a position with an outside company before I reach my end date? Will I still receive a severance package?

A: In these circumstances you are eligible to receive an enhanced severance package and if you are successful in your job search, this will not have an impact on

your ability to receive the severance package. Please discuss your leaving date with your line manager and HR representative.

Q28: Have you considered setting up a counseling line for employees to call? This is a very emotional issue for most of the people I have spoken to. The effects of these changes will be having a direct impact on many individuals. I would almost relate it to a type of crisis intervention counseling to provide support.

A: The Employee Assistance Program, currently provided by Carebridge Telephone: 800-437-0911, is designed specifically to handle the kind of situations that employees currently find themselves in while we restructure the business. Carebridge has been briefed on the circumstances surrounding the restructuring process and are equipped to deal with employees who have stress related, family and financial problems. Professional and confidential support is available through Carebridge if needed.

Q29: If there is no salary posted and a person applies for the position, at what point is the individual informed that if they take this position the salary could be less than what they are currently making?

A: When individuals are offered a role, they will be offered the salary and the incentives (where appropriate) relevant for that role. It is at this point they will have absolute clarity about the offer they have received and, therefore, it is at this point that they can make their choice. If salary information is available earlier in the process, it will be provided to individuals by the relevant HR manager/hiring manager.

Q30: Will salaries be provided for the Phase 3 position postings? This information would help employees to make important life decisions in a more timely matter, considering that only one week will be given to apply for positions in the coming phases of the reorganization.

A: Wherever possible, information will be provided to individuals during the posting/selection process. At the latest, this will be provided at the time a job offer is made.

Q31: Is it true that benefits such as vacation entitlement will change in the new structure? If so, does that mean the vacation entitlement you had at January I might be reduced after July?

A: There will be no benefits changes during 2004. Benefits are currently being reviewed and any changes that arise from this review will be effective during 2005.

Q32: As a result of the restructuring effort that is currently **underway**, many employees who are 55 years old or older could face the possibility of being offered a new position with the Company at a lower salary. Accepting a new position at a lower salary could negatively impact an employee's pension, as the pension amount is based on the highest 5 consecutive years earnings in the last 10 years of employment. This seems very unfair given the circumstances. The job market is very unkind to those in the 50+ age group, while staying on with the Company may penalize one's future pension benefit. Any thoughts on this predicament?

A: We do not anticipate that many employees will be offered a job at a lower salary level, as the majority will fit roughly in line with the market data. Individuals whose jobs have materially changed or been eliminated will have a choice to accept severance, retire (if eligible), or accept a job offer they receive. Individuals needing advice on the pensions and benefits impact should contact their **HR** manager or the Benefits Call Center at 866-888-8269.

Q33: At the time of severance, in addition to our severance package, will we be reimbursed for unused vacation time? Also, will severance be paid regularly or in a lump sum?

A: Yes, you will be reimbursed for unused vacation time that you are entitled to. Severance will be paid in a lump sum so that all employees will have immediate access to their 401(k) and Employee Investment plans at termination. A lump sum severance benefit will also be paid to employees who are retiring so that pension benefits can begin as soon as an employee retires and no lapse in health insurance benefits will occur. Employees who retire are not eligible for active health insurance benefits and they are switched to retiree health benefits at retirement, if applicable.

The Process

Q34: What happens after I have been interviewed as part of the Phase 3 process?

A: Your local HR team will contact you and let you know if you have been successful in this stage of the process. If you have been selected to go forward to PDI, your local HR team will notify you. The Business Center **HR** team will then contact you with the specific date and location of your assessment. The minimum amount of notice you will be given is two working days. However, in order to meet our deadlines, we will be asking candidates to be as flexible as possible to meet the timetable. We will make every effort to provide you with as much notice as possible. This is consistent with the notice periods which participants in Phases 1 and 2 received. It is important that you attend on your scheduled date. If you have a critical business priority that you believe will prevent you from attending, you should contact the Business Center **HR** team by getting in touch with Gail McDevitt at gmcdevitt@amwater.com. If, after the interview you have not been selected for an assessment, you should discuss potential future roles with your line manager or **HR** manager. Options would include applying for roles in the next Phase, or leaving the Company with eligibility for severance if your position has been materially changed or eliminated.

Q35: Where will the Phase 3 PDI assessment centers be located?

A: PDI offices are equipped to give all candidates an individual office space to ensure privacy and minimize the delay between activities during the assessments. To accommodate the number of assessments required in Phase 3, we will be using PDI's Dallas, New York and Minneapolis offices.

Q36: What happens after I have been to the assessment center?

A: Prior to leaving the assessment center you will receive feedback from PDI. Following your attendance at the assessment center, PDI will compile the results for all

the candidates who are being assessed for the role you have applied for. Once these results have been reviewed and the selection decisions made, the relevant hiring or HR manager will contact you to confirm the outcome. Each individual will receive from PDI a report for use in preparing development plans.

Q37: Who will be involved in making the selection decisions?

A: A number of people will be involved in making the selection decisions depending upon the role being reviewed. The aim is to ensure that the hiring manager has sufficient support and challenge to help him/her make the best decision. As a minimum, those involved in each selection decision will include the hiring manager, a member of the HR team, a PDI consultant and either the functional lead or another member of the Regional/Business Center team.

Q38: After I have been to PDI, how long will it be before I hear the outcome?

A: The Project Team in HR have tried to schedule all the candidates for each position within a consistent timeframe (i.e., all within a one or two week period). This approach should ensure that you won't have to wait while other candidates are assessed during subsequent weeks. This isn't always possible given the numbers of assessments in this phase, but we will make every effort to keep your wait to a minimum. A typical time frame, during Phase 3, between attending the assessment and learning the outcomes, will be 3 to 4 weeks.

Q39: Have the details of the Phase 4 assessment process been determined yet?

A: The details of the Phase 4 process are currently being worked out. These will be communicated in full on April 28th. However, we can confirm that we plan to begin the assessment process in the week of May 25th.

Q40: When will the Phase 4 jobs be posted?

A: The Phase 4 roles will be posted on April 28th.

Q41: When will we be able to see the selection decisions that have been made across the business?

A: The Phase 3 selection decisions will be communicated once individuals have accepted job offers and we have completed the appointment process. This is likely to be in mid-May.

Q42: Will PDI be used for assessments in the remaining parts of Phase 3 and for Phase 4?

A: We will be using PDI for the management roles, which we are posting in Phase 3. We will be working with a company called SHL for the remaining supervisory and other functional roles in Phase 4.

SHL is a company with an excellent reputation for the quality of their assessment processes and project management. They have been selected to work with us in Phase 4 because they have particular experience of large-scale assessment processes, and have excellent selection tools relevant to the types of roles in Phase 4.

All assessments will be based on our new job descriptions and will use the "behavioral dictionary" (our behaviors for success) as the means to evaluate the individual's suitability for a role. Candidates who have been assessed by PDI in an earlier Phase, will not need to be re-assessed by PDI or assessed by SHL unless, in exceptional cases, the role they have now applied for is significantly different and additional data is required.

Q43: As a District Superintendent I was relieved to learn that I would not have to compete for my position during the organizational redesign process. However, I also learned that my immediate supervisor's position was being eliminated. Based on this information, I can only assume that my responsibilities and duties will be increased or realigned after the elimination of my supervisor's position. Will we be getting updated Job Descriptions for our positions?

A: If your position is materially changed, then the job descriptions will be redefined and this revised job description will be posted in the internal job postings process. There is no automatic trigger for your role to be changed as a consequence of roles changing around you. However, if it does change, you will be advised.

Q44: I have heard that if your job title changes, you will have to re-apply for that position. Is that true in all cases?

A: It is not necessarily true that if your job title changes your job will be posted and that you will have to compete for it. Some job titles are changing to be consistent across the Company but the content of the job remains as it is at present.

Q45: I feel that the job title that I am classified under does not really describe the duties I perform. Although I have a large workload and I provide a needed service to my department, I feel that in the process of re-applying for my position it will appear that I am not the "right person for the job". Will the company seek to know what duties I perform and maybe create a new title I job description?

A: We will post jobs, which are materially different, or where a role has been eliminated. Through the interview process we will seek to understand each candidate's experience, knowledge and skills. We will then select those individuals who are the best fit for the role based on the information we obtain through the entire assessment process. It is important to understand that through the re-organization, we are seeking to design roles around business needs and not individuals.

Q46: In the latest announcement, it was reported that in phase one and two some 130 people were assessed and 51 were appointed to new roles. Does that mean 79 jobs were eliminated or that we are going outside to hire new people?

A: No, it does not mean that 79 jobs were eliminated. It simply means there were more applicants than posted positions. The applicant pool for the jobs posted in Phases 1 and 2 included people from the levels beneath those jobs who were applying for the career opportunities that were presented. We currently have 18 roles that we are attempting to fill externally, primarily in Finance, HR, Business Development, Legal and Audit.

Q47: Do you know if it has been determined that the current employer is to bear the cost of the travel associated with interviews, etc.? We have been asked to inquire before charges are assigned.

A: Travel expenses for interviews, etc. are to be paid by the current Business Unit.

Q48: When will we find out if we can stay in our present jobs? Do you realize how much stress you are bringing to all of the employees at this company? Couldn't this have been done in a better way? It just seems like this whole process is dragging out way too long.

A: Your line manager will advise you of your status as soon as possible. We do appreciate the stress and anxiety that a change like this brings to employees. We have considered a number of ways of undertaking this review and feel that the approach that we are taking will produce the best results in terms of finding the right people for the right roles. We believe that we are moving at a pace that is enabling us to make the right decisions, treat people fairly, and involve each layer of new hiring managers in the decision making process.

Q49: How about communication to the employee when they apply for an internal position? It seems like there is no communication. We take the test and then what? What can we expect from there? Do we get short listed? Will everyone be granted an interview?

A: At each step in the process, individuals receive confirmation of their result and feedback on their application, their interview, their assessment, etc. If you are unsure of your status in the process, please contact your HR Manager immediately.

Q50: If I still have not been awarded a position, or if a position offered is below my current salary, will I still be eligible for the severance package if I decide to leave the company?

A: If your job has materially changed or been eliminated and you are offered a role at a lesser salary level, you have a choice of retirement (if you are eligible), severance, or to accept the job offer.

Q51: What happens if I am on vacation when the jobs are posted?

A: If you contact your local HR team, they will make arrangements to ensure you are considered for the roles for which you wish to apply. It would be best to make that contact prior to your vacation, as well as afterwards. Even though the roles may not be known prior to the posting date, the advance discussion may expedite your ability to become involved in the process once you return from vacation.

Q52: Will employees who will be displaced as part of the re-structuring be provided ample opportunity to exercise their 60-day retirement notice option so they can retain their group health insurance, and avoid being classified as a terminated vested employee, because they did not have 60 days to provide a retirement request before their date of separation due to displacement?

A: Yes. Individuals whose positions are eliminated, or who are not appointed to a new role and wish to retire, will be able to provide the appropriate notice. It is important

to inform your local HR manager as soon as possible, after you have made your decision, so all appropriate arrangements can be confirmed.

Q53. I am a Products and Services employee. I have recently learned that organizational charts for some regions exist all the way down to plant personnel. Is this true, and if they do, why haven't I seen them? I understand AWS O & M projects will eventually be rolled into the various new regional structures but I thought we could apply for positions in the new structure now as they are posted. If we have not seen these organizational charts how can we know if this is a job we would like to pursue?

A Certain draft organizational charts were prepared and circulated in some regions as a way to engage managers in the organization decision-making. Also, there have been some high-level functional charts communicated to show the relative positioning of functional roles. The more detailed charts are included in today's announcement. Any Products and Services employee who finds a posted position for which they qualify, and are interested in, is welcome to apply. At the same time, if you are having difficulty accessing the postings, please contact your HR manager, or the HR manager in the relevant region, to obtain information on the postings and how to apply.

Q54: I have been confirmed in post but I am a candidate for a Phase 3 job. If I get offered the job, will I be obliged to accept an offer?

A: If you have been confirmed in a post but you are interested in other opportunities that are a good match for your skills and experience, which would give you career opportunities, you are entitled to make an application. However, you should not apply for a position unless you do so 'in good faith,' recognizing the time and energy both you and the Company will dedicate in getting you to the offer stage. The process is designed to provide you with the necessary information about the job and there should be no surprises about the position by the end of the evaluation process. If you feel it is not a match for you, you can withdraw at any time. Offers will be given in 'good faith' and there is a reasonable expectation that such offers will be accepted. Individuals may have good reason not to accept an offer, and in these cases their views will be respected. The key is open dialogue throughout the process.

Q55: I have not been confirmed in post, in fact my role has been eliminated, so I have to apply for other positions to stay in the company. If I am offered a Phase 3 job but actually would prefer a job in a later Phase, will I be obliged to accept my first offer?

A: Our goal is to manage the process to avoid placing individuals in this situation.

Employees whose jobs have been materially changed, or eliminated, and who wish to stay with the company, should apply for positions that fit their skills and experience. Those who don't wish to stay with the company will be eligible for the enhanced severance package and may retire if they are eligible to do so.

We realize the layer by layer posting process does not allow employees to see the full range of opportunities which may exist for them. They also are unable to anticipate whether the position they now hold will be changed or eliminated. Inevitably, employees may feel obliged to apply for positions they may otherwise not have been attracted to.

There is nothing wrong with doing so, as long as you meet the requirements of the position.

Today's announcement completes the Phase 3 postings, and Phase 4 postings will occur on April 28th. Allowing for the application process, short-listing and the assessment process, it is most likely employees will see all of the Phase 4 postings before they would need to make a decision about a Phase 3 offer. Should this not be the case, we will work with the employee to ensure he or she is able to confidently make the best decision.

Q56: If I don't have a job in the new structure, and I apply for posts and then receive a job offer, and subsequently choose to decline it, what are the consequences for me?

A: On the basis that you aren't waiting for the results of other internal job applications and you are currently without a job there would have to be "a good reason" for declining the offer. Good reason may be the location of the job, its salary level, or your belief that you cannot in all honesty fulfill the accountabilities of the role. In these cases, you will be eligible to leave the company with the enhanced severance terms.

If you don't have "good reason" to decline the position, we will review your case carefully, but it is a reasonable position for the Company to assume that you will be declining a good offer, made in good faith, and that you are effectively resigning from the company. In these exceptional cases, severance may not be provided.

The selection gives each individual many opportunities to withdraw their application for any reason at any stage, and we would prefer individuals to take the opportunity to do this earlier rather than later. Those who withdraw from the process early will of course, be eligible to leave the company with the enhanced severance package terms. The company's intention is to treat each person with dignity and respect and to ensure that they receive fair treatment. All decisions will be reasonable and will be openly discussed with individuals.

Q57: I have reviewed several Q&A's regarding the future status of American Water Services, but I am still confused about whether AWS will continue to exist.

A: American Water Services (AWS) is the legal entity which is responsible for our various products and services businesses. It is also the legal entity which contracts with municipalities when we perform operations and maintenance (O&M) services. AWS will continue to exist for those legal functions. However, the management responsibility for O&M projects within the United States is being transitioned from the Products and Services Group to the four Regions. By doing so, we will make the most efficient and effective use of our size and scope for the benefit of all customers. This transition does not mean the regulated utility business is taking over the O&M business, nor is the reverse happening. Simply, we are combining like functions within a common management framework in order to maximize the value of service we can deliver. There will continue to be a Products & Services Group responsible for national business lines such as Service Line Protection, Residuals Management, etc. after the transition has been completed.

Q58: Do the structure charts included in today's communication cover all positions, including those which will be posted in Phase 4?

A: No. The Human Resources team and Region management teams have tried to finalize the structure charts to show as many positions as possible. However, the top priority was to complete the charts and position descriptions necessary for today's postings. Some charts do include positions which will be covered in Phase 4. However, all of the Phase 4 positions are not yet reflected in the structure charts issued today.

Q59: I have seen the terms 'regulated business', 'non-regulated business', 'regulated utility' and 'owned-utility'. Can you please explain them?

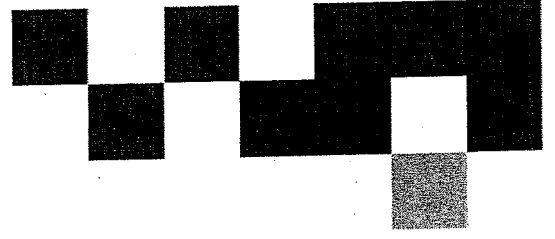
A. Those terms are used to distinguish the utility business, which we own, and which is therefore subject to oversight by a state economic regulation, from the operating, & maintenance (O & M) businesses we are engaged with under a contractual agreement with a municipality. Those O & M businesses are not governed by the state economic regulator. Rather, the client (City Council, etc.) has oversight over the contract. As we consolidate our operations within the four U. S. regions, we will more often use the terms "owned-utility business" and "O & M Businesses" as the principal distinction is who owns the utility rather than what external oversight exists.



American Water

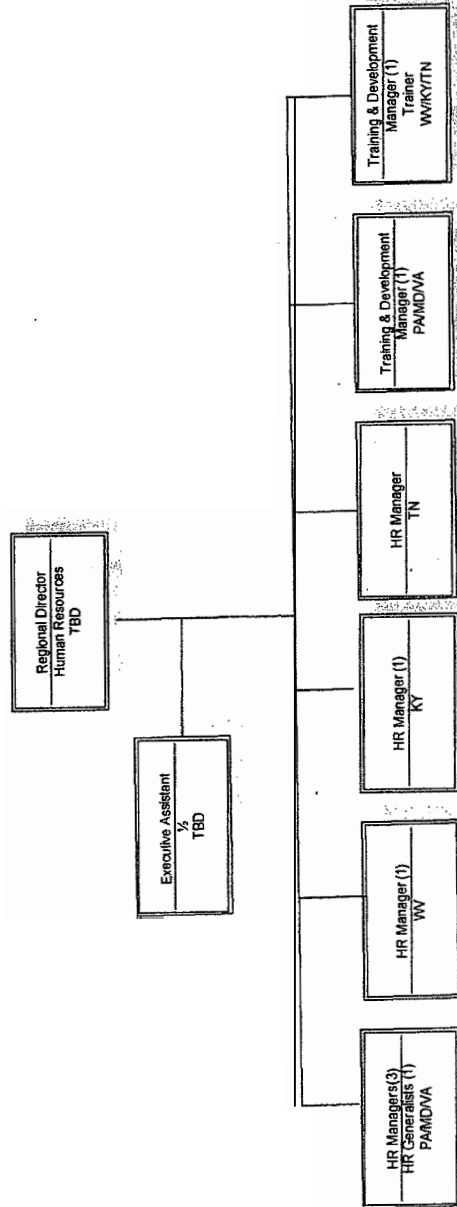
Structure Charts – Southeastern Region

April 14, 2004





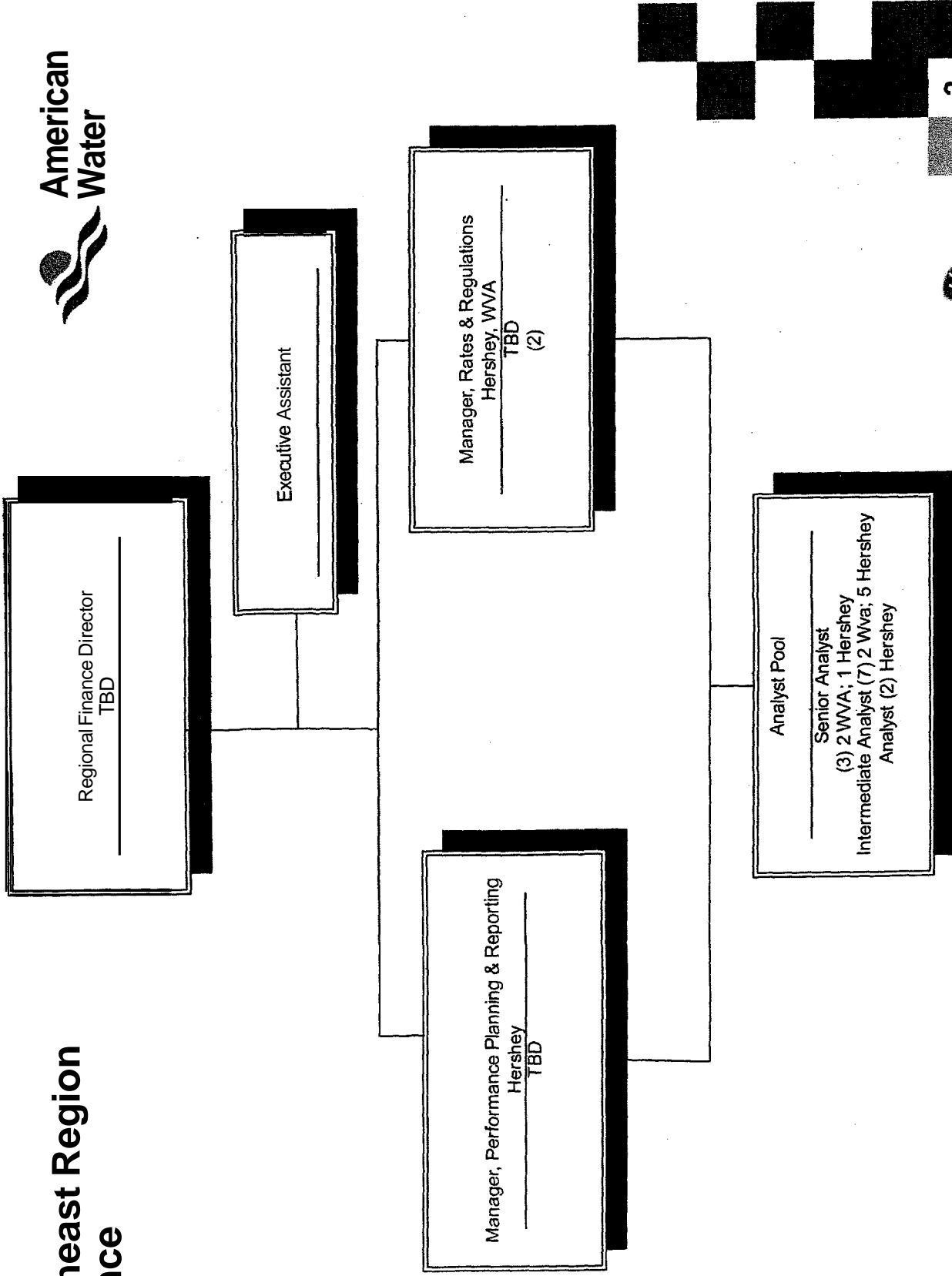
Southeast Region - Human Resources



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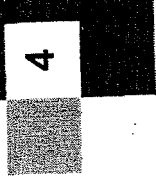
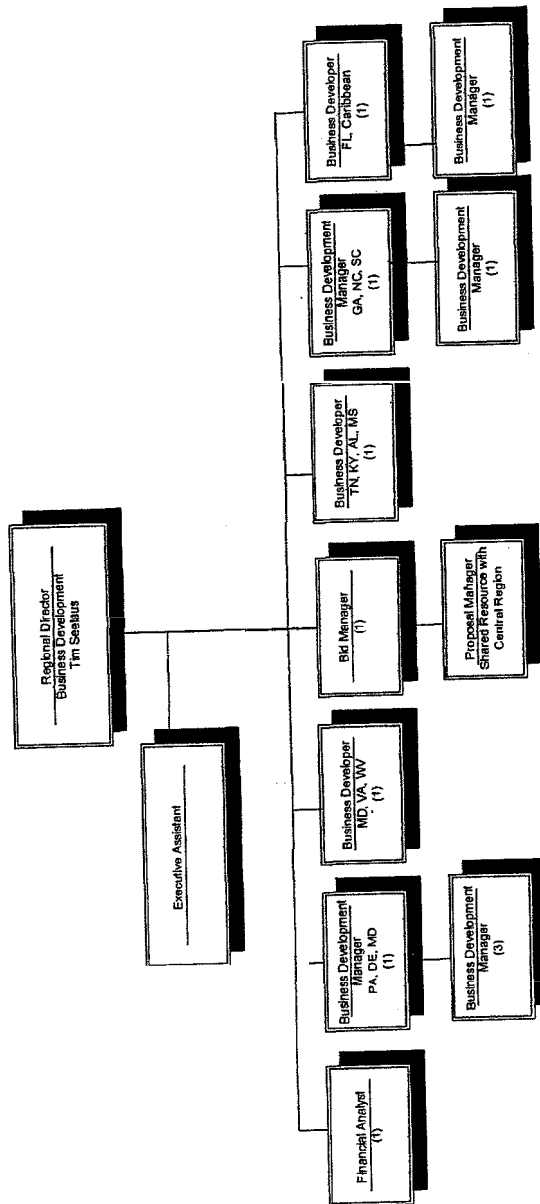


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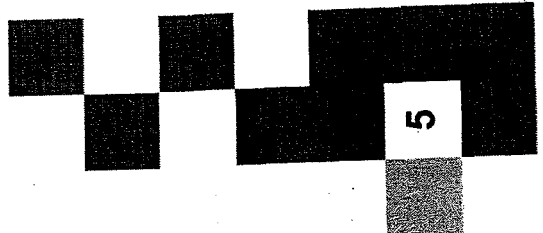
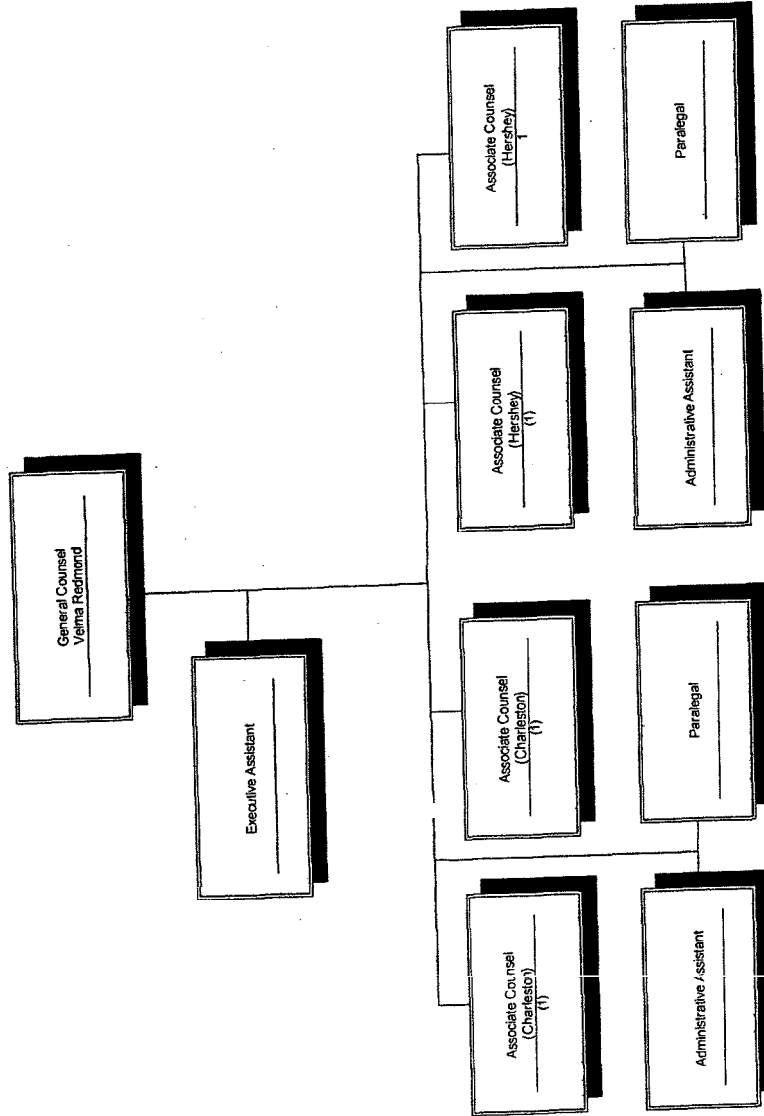


Southeast Region - Business Development



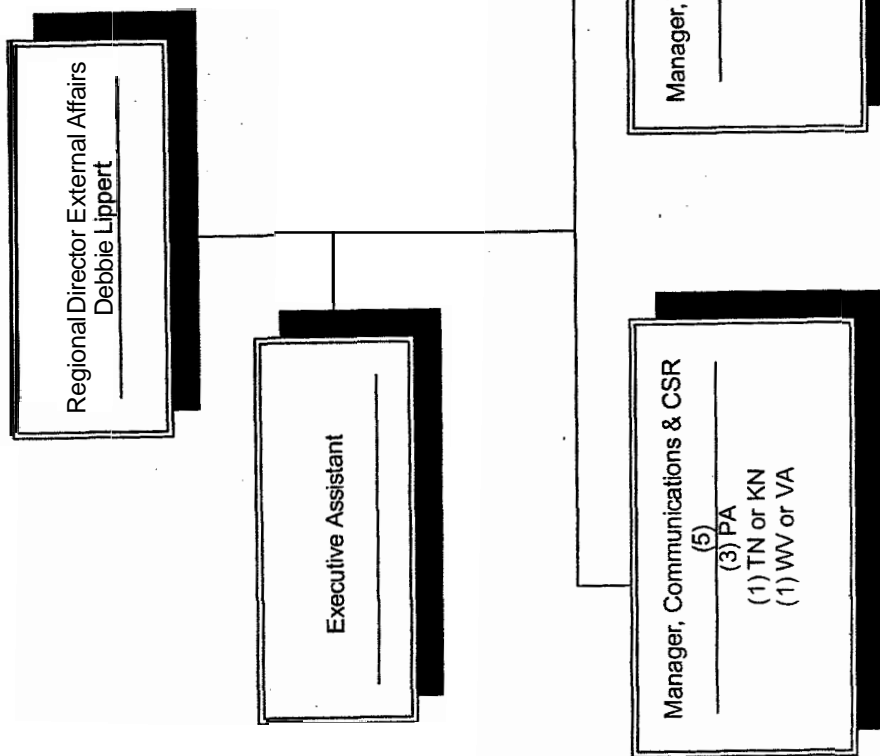


Southeast Region - Legal



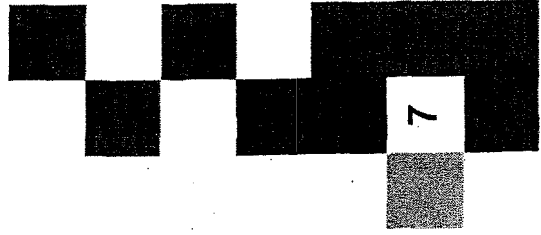
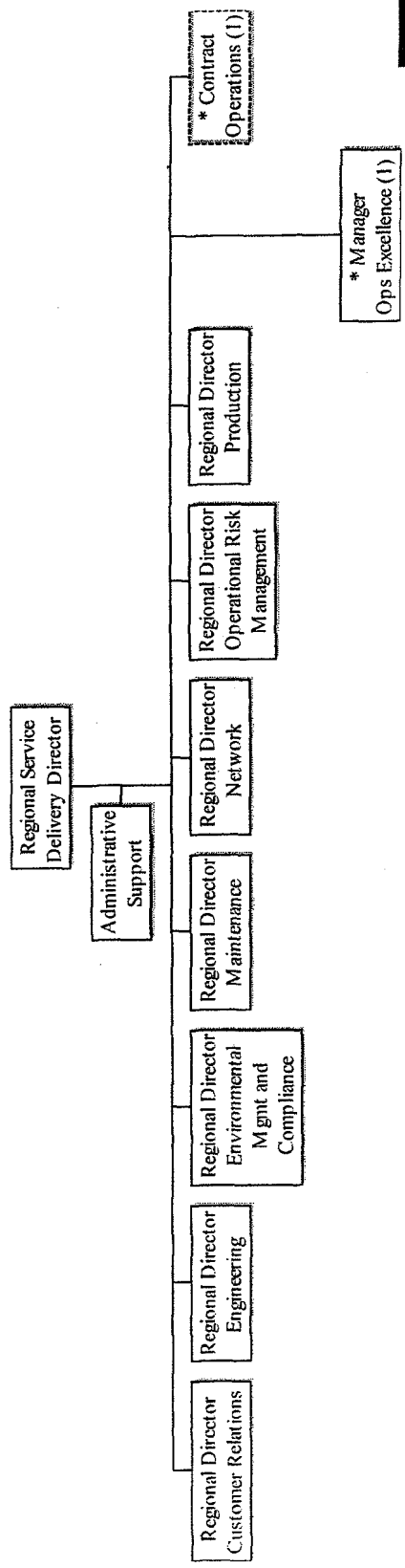


Southeast Region - External Affairs





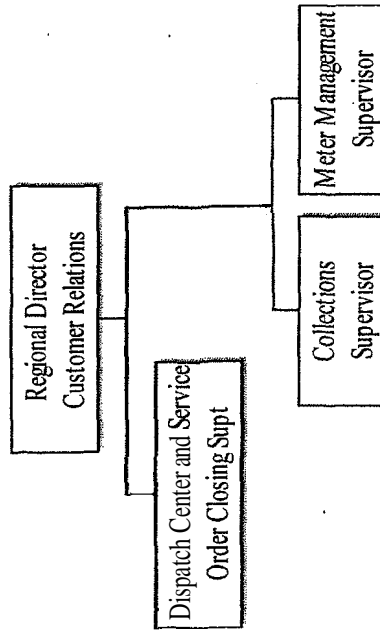
Southeastern Region Service Delivery



* Posted on 4/14/04



Southeastern Region
Service Delivery
Customer Relations

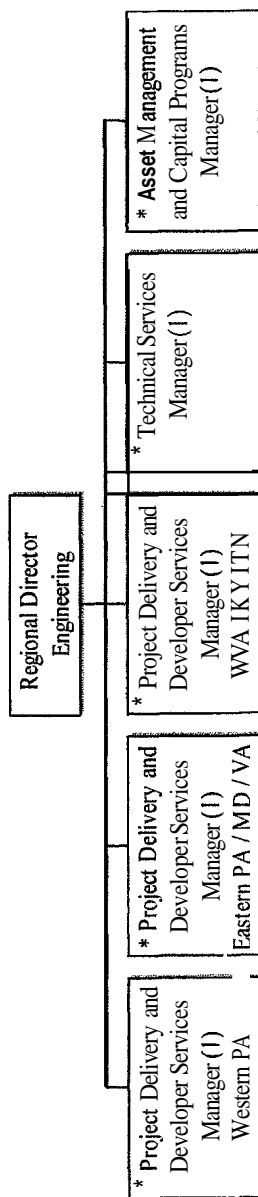


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Southeastern Region
Service Delivery
Engineering



* Posted on 4/14/04

