

Operating Unit Managing Director Report



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

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky US GAAP	April-2004 Month to Date						
	Net						
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Operating Assets	Net Debt	Capex
TYB	3,203	606	226	1,555	155,744	(83,973)	2,086
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	2,931	314	(266)	2,216	153,245	(82,540)	1,055
Variance	(272)	(292)	(492)	661	(2,499)	1,433	(1,031)
Variance Explanations							
Revenue							
Residential Demand	3	3	3	3	3	3	-
Industrial Demand	(34)	(34)	(34)	(34)	(34)	(34)	-
Unbilled Revenue Issues	(277)	(277)	(277)	(277)	(277)	(277)	-
Wastewater	(21)	(21)	(21)	(21)	(21)	(21)	-
Other 1	57	57	57	57	57	57	-
Operating Result							
Production Costs (revenue related)		34	34	34	34	34	-
Management fees: central		(210)	(210)	(210)	(210)	(210)	-
Management fees: local							-
Main breaks							-
Insurance		(7)	(7)	(7)	(7)	(7)	-
Miscellaneous Operating Expense		(12)	(12)	(12)	(12)	(12)	-
Pension Costs		29	29	29	29	29	-
Security Costs		9	9	9	9	9	-
Labor Costs		32	32	32	32	32	-
Uncollectibles		(19)	(19)	(19)	(19)	(19)	-
Depreciation		(43)	(43)	(43)	(43)	(43)	-
Other Misc & Maint		167	167	167	167	167	-
Profit Before Tax							
AFUDC			(26)	(26)	(26)	(26)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			21	21	21	21	-
Amortization							-
Other 4			(195)	(195)	(195)	(195)	-
Operating Cash Flow							
Working Capital ¹				1,131			-
Change in Provisions				(221)			-
Other 5				243	(976)	894	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies					-	-	-
CapEx: Project 1					(1,031)	1,031	(1,031)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance - month to date							
	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky
US GAAP**

April-2004 Year to Date							
	Net						
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Operating Assets	Net Debt	Capex
TYB	12,652	2,882	1,474	5,931	155,744	(83,973)	8,510
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	12,810	2,121	203	5,658	153,245	(82,540)	3,382
Variance	158	(761)	(1,271)	(273)	(2,499)	1,433	(5,128)
Variance Explanations							
Revenue							
Residential Demand	1,457	1,457	1,457	1,457	1,457	1,457	-
Industrial Demand	(29)	(29)	(29)	(29)	(29)	(29)	-
Unbilled Revenue Issues	(1,908)	(1,908)	(1,908)	(1,908)	(1,908)	(1,908)	-
Wastewater	(82)	(82)	(82)	(82)	(82)	(82)	-
Other 1	720	720	720	720	720	720	-
Operating Result							
Production Costs (revenue related)		38	38	38	38	38	-
Management fees: central		(882)	(882)	(882)	(882)	(882)	-
Management fees: local							-
Main breaks							-
Insurance		(38)	(38)	(38)	(38)	(38)	-
Miscellaneous Operating Expense		(136)	(136)	(136)	(136)	(136)	-
Pension Costs		124	124	124	124	124	-
Security Costs		9	9	9	9	9	-
Labor Costs		58	58	58	58	58	-
Uncollectibles		(32)	(32)	(32)	(32)	(32)	-
Depreciation		(319)	(319)	(319)	(319)	(319)	-
Other Misc & Maint		259	259	259	259	259	-
Other 3		-	-	-	-	-	-
Profit Before Tax							
AFUDC			(63)	(63)	(63)	(63)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			68	68	68	68	-
Amortization							-
Other 4			(515)	(515)	(515)	(515)	-
Operating Cash Flow							
Working Capital ¹				270			-
Change in Provisions				(102)			-
Other 5				830	3,900	(2,424)	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies							-
CapEx: Project 1					(5,128)	5,128	(5,128)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance - year to date	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

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

Executive Summary:

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

Operating Result

vs Budget - Operating result for the month is \$292,000 under budget. Revenues are under budget \$272,000 for the month and over \$158,000 for YTD. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. The remaining variance is reflected in management fees. Management fees are over plan for March by \$210,000 due to an error in the monthly spread in the budget. The company expects this to reverse in subsequent months and we expect management fees to be on target for the year. April YTD operating result is under plan \$761,000. Management fees will reverse in subsequent months and return the Company to plan levels.

Free Cash Flow I

vs Budget - Free cash flow is a favorable variance of \$661,000 for the month due to the timing of payments. The YTD variance to budget is an unfavorable \$273,000 due to the timing of payments.

Net Debt

vs Budget - April is under the plan by \$1.4 million due to CAPX delays.

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

A major issue at KAWC continues to be the condemnation effort by the LFUCG. The Company has a right to object to the taking and object to the value set by the commissioners after receipt of summons from the LFUCG. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

**Kentucky American Water
Financial Indicators
April-04**

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

Turnover

Month vs Budget - Revenue for the month was \$272,000 under budget. This is primarily due to a shift in unbilled revenue.

YTD vs Budget - Reported revenue is \$158,000 over budget. This is primarily due to the extra week of revenues in January adjusted for the shift in unbilled revenue.

OPEX (excl Depn)

Month vs Budget -OPEX has an unfavorable variance for the month. This is primarily a result of management fees.

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

Operating Result

vs Budget - April is under the plan by \$1.4 million due to CAPX delays.

Month vs Budget - CAPEX is \$1.03 million under budget because of delays in construction. The company expects to spend capex in Q1RF for the year.

YTD vs Budget - CAPEX is \$5.128 million under budget due to delays. The company still expects to spend capex at the level in Q1RF for the year.

Free Cash Flow I

Month vs Budget - The favorable \$661,000 variance is due to the timing of payments.

YTD vs Budget - The unfavorable \$273,000 variance is due to the timing of payments.

Net Debt

Net Debt is under plan \$1.4 million for the month primarily to due to CAPX.

Net Operating Assets

YTD vs Budget - A reduction from plan of \$2.5 million results from lower capex offset by lower OR.

Headcount

YTD vs Budget - All remaining vacancies are being actively pursued. Two of the vacancies have not been included in the rate case filing.

Kentucky American Water
Markets/Customer Indicators
April-04

Markets/Customer Indicators

Markets

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

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

YTD vs Forecast -

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

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

YTD vs Forecast -

Customer Indicators

On April 30 the Company filed its rate request seeking increased rates of \$7.297 million or 16.82%. The Company prepared a very professional information and education document explaining its rate case, the rate case process, the benefits of private ownership, and provided commonly asked questions and answers about the Company and its rate filing. This package was distributed to all the media and all key stakeholders.

Kentucky American Water
Employee Indicators
April-04

Employee Indicators

Key Employee Indicators

The operating result/FTE for April was \$2,553 compared to a budget of \$4,489. Management fees, depreciation and general taxes expense timing as explained earlier in the report are driving the lower result. The operating result/FTE YTD is \$17,244 versus a budget of \$21,348. See operating result explanation earlier in report.

Risks and Opportunities (See Detailed Summary):

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

Risk Summary (See Detailed Summary):

vs Budget - April is under the plan by \$1.4 million due to CAPX delays.

Nothing of significance to report. The Company did update its risk assessment plan and provided it to the corporate risk department.

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

Operating Unit Managing Director Report



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

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky US GAAP	May-2004 Month to Date						
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net		
					Operating Assets	Net Debt	Capex
TYB	3,313	760	395	1,515	155,943	(84,202)	1,417
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	3,708	1,136	637	403	154,330	(83,210)	1,188
Variance	395	376	242	(1,112)	(1,613)	992	(229)
Variance Explanations							
Revenue							
Residential Demand	(510)	(510)	(510)	(510)	(510)	(510)	-
Industrial Demand	(11)	(11)	(11)	(11)	(11)	(11)	-
Unbilled Revenue Issues	1,117	1,117	1,117	1,117	1,117	1,117	-
Wastewater	(23)	(23)	(23)	(23)	(23)	(23)	-
Other 1	(178)	(178)	(178)	(178)	(178)	(178)	-
Operating Result							
Production Costs (revenue related)		(24)	(24)	(24)	(24)	(24)	-
Management fees: central		(138)	(138)	(138)	(138)	(138)	-
Management fees: local							-
Main breaks							-
Insurance		(30)	(30)	(30)	(30)	(30)	-
Miscellaneous Operating Expense		6	6	6	6	6	-
Pension Costs		21	21	21	21	21	-
Security Costs		7	7	7	7	7	-
Labor Costs		43	43	43	43	43	-
Uncollectibles		(5)	(5)	(5)	(5)	(5)	-
Depreciation		(55)	(55)	(55)	(55)	(55)	-
Other Misc & Maint		156	156	156	156	156	-
Profit Before Tax							
AFUDC			(25)	(25)	(25)	(25)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			12	12	12	12	-
Amortization							-
Other 4			(121)	(121)	(121)	(121)	-
Operating Cash Flow							
Working Capital ¹				(1,794)			-
Change in Provisions				253			-
Other 5				187	(1,626)	521	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies					-	-	-
CapEx: Project 1					(229)	229	(229)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance - month to date	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky
US GAAP**

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

Variance Explanations

Revenue

	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
Residential Demand	947	947	947	947	947	947	-
Industrial Demand	(40)	(40)	(40)	(40)	(40)	(40)	-
Unbilled Revenue Issues	(791)	(791)	(791)	(791)	(791)	(791)	-
Wastewater	(105)	(105)	(105)	(105)	(105)	(105)	-
Other 1	542	542	542	542	542	542	-

Operating Result

Production Costs (revenue related)		14	14	14	14	14	-
Management fees: central		(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	-
Management fees: local							-
Main breaks							-
Insurance		(68)	(68)	(68)	(68)	(68)	-
Miscellaneous Operating Expense		(130)	(130)	(130)	(130)	(130)	-
Pension Costs		145	145	145	145	145	-
Security Costs		16	16	16	16	16	-
Labor Costs		101	101	101	101	101	-
Uncollectibles		(37)	(37)	(37)	(37)	(37)	-
Depreciation		(374)	(374)	(374)	(374)	(374)	-
Other Misc & Maint		415	415	415	415	415	-
Other 3		-	-	-	-	-	-

Profit Before Tax

AFUDC			(88)	(88)	(88)	(88)	-
Interest (rates)							-
Interest (increase/decrease borrowing)			80	80	80	80	-
Amortization							-
Other 4			(636)	(636)	(636)	(636)	-

Operating Cash Flow

Working Capital ¹				(1,524)			-
Change in Provisions				151			-
Other 5				1,017	4,773	(3,336)	-

Net Op. Assets/Net Debt/CapEx

CapEx: Weather Delays					-	-	-
CapEx: Efficiencies							-
CapEx: Project 1					(5,357)	5,357	(5,357)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-

Unexplained Variance - year to date

May-2004 Year to Date							
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
TYB	15,965	3,642	1,869	7,446	155,943	(84,202)	9,927
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	16,518	3,257	840	6,061	154,330	(83,210)	4,570
Variance	553	(385)	(1,029)	(1,385)	(1,613)	992	(5,357)
Variance Explanations							
Revenue							
Residential Demand	947	947	947	947	947	947	-
Industrial Demand	(40)	(40)	(40)	(40)	(40)	(40)	-
Unbilled Revenue Issues	(791)	(791)	(791)	(791)	(791)	(791)	-
Wastewater	(105)	(105)	(105)	(105)	(105)	(105)	-
Other 1	542	542	542	542	542	542	-
Operating Result							
Production Costs (revenue related)		14	14	14	14	14	-
Management fees: central		(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	-
Management fees: local							-
Main breaks							-
Insurance		(68)	(68)	(68)	(68)	(68)	-
Miscellaneous Operating Expense		(130)	(130)	(130)	(130)	(130)	-
Pension Costs		145	145	145	145	145	-
Security Costs		16	16	16	16	16	-
Labor Costs		101	101	101	101	101	-
Uncollectibles		(37)	(37)	(37)	(37)	(37)	-
Depreciation		(374)	(374)	(374)	(374)	(374)	-
Other Misc & Maint		415	415	415	415	415	-
Other 3		-	-	-	-	-	-
Profit Before Tax							
AFUDC			(88)	(88)	(88)	(88)	-
Interest (rates)							-
Interest (increase/decrease borrowing)			80	80	80	80	-
Amortization							-
Other 4			(636)	(636)	(636)	(636)	-
Operating Cash Flow							
Working Capital ¹				(1,524)			-
Change in Provisions				151			-
Other 5				1,017	4,773	(3,336)	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies							-
CapEx: Project 1					(5,357)	5,357	(5,357)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance - year to date	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

Kentucky American Water
Executive Summary
May-04

Executive Summary:

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

Operating Result

vs Budget - Operating result for the month is \$376,000 over budget. Revenues are over budget \$395,000 for the month and over \$553,000 for YTD. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. The remaining variance is reflected in management fees. Management fees are over plan for March by \$138,000 due to an error in the monthly spread in the budget. The company expects this to reverse in subsequent months and we expect management fees to be on target for the year. April YTD operating result is under plan \$385,000. Management fees will reverse in subsequent months and return the Company to plan levels.

Free Cash Flow I

vs Budget - Free cash flow is a unfavorable variance of \$1.1 million for the month due to the timing of payments. The YTD variance to budget is a unfavorable \$1.3 due to the timing of payments

Net Debt

vs Budget - May is under the plan by \$992,000 due to CAPX delays.

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

The major issue at KAWC continues to be the condemnation effort by the LFUCG. The Company has a right to object to the taking and object to the value set by the commissioners after receipt of summons from the LFUCG. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

Kentucky American Water
Financial Indicators
May-04

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

Turnover

Month vs Budget - Revenue for the month was \$395,000 over budget. This is primarily due to a shift in unbilled revenue.

YTD vs Budget - Reported revenue is \$553,000 over budget. This is primarily due to the extra week of revenues in January adjusted for the shift in unbilled revenue.

OPEX (excl Depn)

Month vs Budget -OPEX has an unfavorable variance for the month. This is primarily a result of management fees.

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

Operating Result

Month vs Budget - OR for the month reflects a favorable variance of \$376,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

Month vs Budget - CAPEX is \$229,000 under budget because of delays in construction. The company expects to spend capex in Q1RF for the year.

YTD vs Budget - CAPEX is \$5.357 million under budget due to delays. The company still expects to spend capex at the level in Q1RF for the year.

Free Cash Flow I

Month vs Budget - The unfavorable \$1.1 million variance is due to the timing of payments.

YTD vs Budget - The unfavorable \$1.3 million variance is due to the timing of payments.

Net Debt

Net Debt is under plan \$992,000 for the month primarily to due to CAPX.

Net Operating Assets

YTD vs Budget - A reduction from plan of \$1.6 million results from lower capex offset by lower OR.

Headcount

YTD vs Budget - The remaining vacancies are being actively pursued.

Kentucky American Water
Markets/Customer Indicators
May-04

Markets/Customer Indicators

Markets

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

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

YTD vs Forecast -

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

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

YTD vs Forecast -

Customer Indicators

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

On April 30 the Company filed its rate request seeking increased rates of \$7.297 million or 16.82%. The Company prepared a very professional information and education document explaining its rate case, the rate case process, the benefits of private ownership, and provided commonly asked questions and answers about the Company and its rate filing. This package was distributed to all the media and all key stakeholders.

Kentucky American Water
Employee Indicators
May-04

Employee Indicators

Key Employee Indicators

The operating result/FTE for May was \$9,311 compared to a budget of \$5,714. Management fees, depreciation and general taxes expense timing as explained earlier in the report are driving the lower result. The operating result/FTE YTD is \$26,697 versus a budget of \$27,383. See operating result explanation earlier in report.

Risks and Opportunities (See Detailed Summary):

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

Risk Summary (See Detailed Summary):

Update on any significant changes to the Risk summary report listed in the prior monthly report.
Nothing of significance to report. The Company did update its risk assessment plan and provided it to the corporate risk department.
Any significant issues that impact the business. Including a section on any issue or event affecting reputation either good or bad and litigation issues as well.