Management's Discussion and Analysis

Other income deductions in 2000 reflect $4.5 million of one-time charges related to rate orders received in Missouri and Kentucky. The most significant of these charges was related to the Missouri Public Service Commission's decision to deny recognition of certain investments in the former treatment plant the Company deemed essential to provide water service while a new treatment plant was being constructed. The Company is appealing both of these orders. Other income deductions in 1999 and 1998 include the Company's share of losses at its former contract management joint venture.

Income Taxes
Income taxes increased by 15% in 2000, following a 4% decrease in 1999. Income tax expense in 1999 reflects the decrease in taxable income primarily related to one-time merger related costs. Details regarding the components of the total amount of state and federal income taxes, and a reconciliation of statutory to reported income tax expense are included in Note 11 to the financial statements.

Summary of Taxes

(000)	2000	1999	1998
Gross receipts and franchise taxes	**$ 43,425**	$ 41,839	$ 40,014
Property and capital stock taxes	**55,680**	53,458	53,705
Payroll taxes	**16,243**	18,445	16,911
Other general taxes	**9,871**	8,932	7,502
State income taxes	**17,453**	14,282	13,575
Federal income taxes	**87,853**	77,118	81,973
	$230,525	$214,074	$213,680

Net Income to Common Stock
Net income to common stock in 2000 was $157.4 million, compared to net income to common stock before merger costs of $147.9 million in 1999 and $146.8 million in 1998. In addition, one-time after tax merger costs of $12.9 million and $.4 million were incurred in 1999 and 1998, respectively, in connection with the National Enterprise transaction. After accounting for these merger costs, net income to common stock was $135.0 million in 1999 compared to $146.5 million in 1998.

Comprehensive Income
Other comprehensive income reflected a net loss of $67.2 million in 2000, compared to net gains of $59.3 million in 1999 and $29.1 million in 1998. The Company's other comprehensive income represents the after tax unrealized gain or loss on passive investments in publicly traded companies. The most significant holdings are in ITC^DeltaCom, Inc. and Powertel, Inc., two telecommunications firms acquired in the merger with National Enterprises, and an investment in SJW Corp.

Comprehensive income was $90.2 million in 2000 compared to $194.3 million in 1999 and $175.6 million in 1998.

Consolidated Capitalization

(000)	Common Equity	Preferred Stock	Long-term Debt
2000	**$1,669,677**	**$52,693**	**$2,432,560**
1999	1,634,798	93,811	2,431,452
1998	1,481,611	97,089	2,385,950
1997	1,341,946	97,663	2,129,228
1996	1,241,167	99,012	2,006,966

Consolidated Capitalization Ratios

	Common Equity	Preferred Stock	Long-term Debt
2000	**40%**	**1%**	**59%**
1999	39%	2%	59%
1998	37%	3%	60%
1997	37%	3%	60%
1996	37%	3%	60%

Note: Long-term debt includes amounts due within one year.

Liquidity and Capital Resources

Internal sources of cash flow are provided by retention of a portion of earnings, amortization of deferred charges, deferral of taxes and depreciation expense. Internal cash generation is influenced by weather patterns, economic conditions and the timing of rate relief. When internal cash generation is not sufficient to meet corporate obligations on a timely basis, external sources of funds are utilized. The availability and cost of external cash reflect the consistency and reliability of earnings. External sources of cash consist of short-term bank loans, the sale of securities – commercial paper, bonds, preferred stock and common stock – as well as advances and contributions from developers.

The Company's Dividend Reinvestment and Stock Purchase Plan allows shareholders and customers of the utility subsidiaries to purchase up to $5,000 of common stock each month directly from the Company at a 2% discount from the then prevailing market price. The discount may be discontinued by the Company at any time.

New shares of common stock may also be issued in connection with the continuation of the Company's Dividend Reinvestment and Stock Purchase Plan, the Employees' Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan. The Board of Directors has also authorized management to purchase shares of the Company's common stock to cover the obligations under the employee benefit plans and dividend reinvestment and stock purchase plan.

The Company's utility subsidiaries fund construction programs and supplement cash flow through the use of short-term borrowings. In June 2000 the Company created American Water Capital to provide a single source of debt capital for the Company and its utility subsidiaries. As a result of consolidating subsidiary credit lines and cash management activities in American Water Capital, the Company was able to reduce the consolidated credit requirements by approximately $150 million. American Water Capital derives its credit worthiness from a strong support agreement with the Company, which is considered the equivalent of an unconditional guarantee of the obligations of American Water Capital. As a result, American Water Capital was rated A- by Standard and Poor's and Baa1 by Moodys Investor Service at December 31, 2000.

During 2000 American Water Capital instituted a $600 million commercial paper program, the first of its kind in the water utility industry. American Water Capital also has a $600 million bank credit facility involving twelve domestic and international banks that supports the commercial paper program. The issuance of commercial paper reduces the amount available under the bank credit facility. At December 31, 2000 $170 million of commercial paper and $233 million of bank borrowings were outstanding. Ample credit lines are available to provide funds needed for 2001 construction requirements and to maintain short-term borrowings not yet refinanced on a long-term basis. Short-term borrowings are repaid with internally generated cash, and the proceeds obtained from selling debt securities either publicly or to institutional investors on a private placement basis.

During 2000, three subsidiaries issued $10 million of mortgage bonds at interest rates between 7.92% and 8.04% and one subsidiary issued $29 million of tax-exempt debt at an interest rate of 5.90%. Proceeds from the sale of the bonds were used to repay short-term borrowings, fund construction programs, and to refinance existing debt.

The utility subsidiaries plan to fund construction programs, continue acquisitions and repay short-term borrowings and maturing bonds in 2001 with the issuance of approximately $309 million of long-term debt, and with additional common equity investments from the Company. In addition, during 2001 the Company will arrange acquisition financing of approximately $850 million to fund the closing of the Citizens Communications water and wastewater sector acquisition. Management intends to fund these transactions permanently through a combination of long-term debt and equity or hybrid equity securities. Effective February 7, 2001 American Water Capital had the ability to issue up to $1.6 billion aggregate principal amount of debt securities under a shelf registration filed with the Securities and Exchange Commission. In addition, the Company may issue approximately $350 million in equity or hybrid equity securities within a year after completing the Citizens acquisition. Excluding any short-term borrowing incurred in connection with this pending transaction, the combined amount of short-term borrowings and bonds maturing within one year is expected to decline to approximately $325 million in 2001. A discussion of the acquisition and capital spending programs begins on page 25.

Regulation

Economic

Twenty state commissions regulate the Company's utility subsidiaries. They have broad authority to establish rates for service, prescribe service standards, review and approve rules and regulations and, in most instances, they must approve long-term financing programs, transactions between the utility and affiliated interests, reorganizations, mergers and acquisitions prior to their completion. The jurisdiction exercised by each commission is prescribed by state legislation and therefore varies from state to state.

Economic regulation deals with many competing, and often conflicting, public pressures and policy goals. Rate adjustment proceedings normally are initiated by the utility. After appropriate investigation by commission staff and intervenors, public hearings are held. These hearings, which are economic and service quality fact-finding proceedings, are conducted in a trial-like setting where evidence is submitted, subject to cross examination, which then forms the basis for a commission decision. The purpose of this regulatory process is to set rates that will cover the reasonable operating costs of providing quality service to customers and which will also allow the utility the opportunity to earn a fair return on the investment necessary to provide that service. A rate proceeding generally focuses on four areas:

- The amount of investment in facilities which provide public service
- The operating costs and taxes associated with providing the service
- The capital costs for the funds used to provide the facilities
- The tariff design which allocates revenue requirements equitably across the customer base

The regulatory rate setting process is time-consuming. Utility management anticipates the time required for the regulatory process and files for rate adjustments or other proceedings that will reflect as closely as possible the cost of providing service at the time the rates become effective. Management pursues methods of offsetting any adverse financial impact of regulatory lag and a number of approaches have proven successful in achieving this result. For example, five states permit the use of forward-looking test years to set rates that are more reflective of costs that are likely to be incurred during the period the rates will be effective. In addition, five subsidiaries have received rate orders allowing recovery of interest and depreciation expense related to the interim period from the time a major construction project is placed in service until new rates reflecting the cost of the project are placed into effect. Six subsidiaries also now recover in rates a return on utility plant before it is in service instead of capitalizing an allowance for funds used during construction. Seven subsidiaries have implemented staged rate increases over several years, reflecting additional annual investments and expenses approximately when they are incurred, and relieving the need to file annual rate increase requests.

Management's Discussion and Analysis

Through legislation or administrative rulemaking, three states allow utilities to recover certain costs of distribution system infrastructure replacement without the necessity of filing a full rate proceeding. Since distribution system infrastructure replacement is a significant element of capital expenditures made by subsidiaries, such programs can reduce regulatory lag, and increase the time between full rate cases.

Additionally, eight regulatory jurisdictions permit forms of rate design known as single tariff pricing. This is a concept which sets similar rates for service to customers of subsidiaries with multiple service districts. It allows simplification of administration, and reduces the complexity of rate proceedings. This concept also spreads fixed costs over a larger customer base and helps to mitigate adverse rate impacts to customers resulting from necessary capital improvements, while permitting flexibility in timing of utility subsidiary financing.

During the past year, regulatory commissions authorized ten subsidiaries to increase rates for service by an annual amount of $27.2 million. The primary driving force for price increases was to reflect a return on the additional investment in essential water service facilities. This has been the case for a number of years and will continue to be the situation for the foreseeable future, as a result of the ongoing need for additional capital investments to reinforce and replace water utility infrastructure and to comply with increasing water quality requirements.

On August 31, 2000, the Missouri Public Service Commission issued an order in the Missouri-American Water Company rate case granting additional annual revenues of $10.2 million. The primary factors in this rate proceeding were the completion of a new water treatment facility at St. Joseph at a cost of $70.1 million and other capital investment of approximately $14.3 million since the last rate case. Various intervenors have filed appeals contesting the amount of increase the Commission authorized and Missouri-American has appealed elements of the Commission's Order, including certain disallowances related to construction costs and amortization of the former treatment facility. These appeals are pending before several Missouri circuit courts.

The West Virginia Public Service Commission approved implementation of several scheduled rate increases that were negotiated as part of a joint settlement of West Virginia-American's last general rate case. The total amount of increase is $5.6 million. This includes the third step of a general increase, and step increases related to West-Virginia American's investment in water treatment plant improvements. The Fayette Plateau regional water project, a public private partnership, providing service to over 8,000 customers, was completed and placed in service during the year, accounting for a portion of the increased rates.

Effective April 19, 2000 the Connecticut Department of Public Utility Control approved a revenue increase of $2.6 million on an annual basis for the Connecticut-American Water Company. The largest portion of this rate filing was associated with a $7.5 million investment associated with renovation of the Putnam Water Treatment Facility. Investments in the Bargh Reservoir dam, Putnam dam, and Putnam clearwell improvements totaled another $5.9 million recognized in this proceeding.

A general rate case for the Monterey Division California-American Water Company was resolved by settlement between the parties resulting in an allowed increase in rates of $.9 million on an annual basis beginning in March 2000. The Monterey settlement also resulted in agreements between the parties concerning special requests providing for recovery of expenses related to conservation programs, emergency water treatment projects, catastrophic events, and rationing programs. In June 2000, the Company received an offset rate increase for its Coronado Division of $.9 million related to an increase in purchased water cost from its supplier, the City of San Diego. In addition, two step increases providing additional annual revenues of $.7 million were also authorized.

Kentucky-American Water Company was awarded an increase in annual revenues of $2.2 million effective December 12, 2000. The rate base component of the Kentucky-American rate increase was due to numerous construction projects which have taken place, or are planned for the year 2001, since Kentucky is one of the commissions that permits projected rate case elements. The Commission has granted a petition Kentucky-American filed requesting a re-hearing regarding several issues.

Additional Annual Revenues Authorized by Rate Decisions

(000)	**2000**	1999	1998
Arizona	**$ —**	$ 811	$ —
California	**2,481**	780	—
Connecticut	**2,628**	—	—
Illinois	**—**	—	750
Indiana	**—**	14,219	2,000
Iowa	**—**	—	1,836
Kentucky	**2,171**	—	—
Maryland	**—**	360	—
Michigan	**—**	—	80
Missouri	**10,233**	—	3,800
New Hampshire	**545**	—	—
New Jersey	**—**	13,083	—
New Mexico	**—**	—	790
New York	**539**	100	440
Ohio	**1,310**	—	733
Pennsylvania	**780**	24,600	—
Virginia	**936**	776	—
West Virginia	**5,561**	4,522	6,287
	$27,184	$59,251	$16,716

Market Risk

The Company is exposed to market risk, including changes in interest rates, certain commodity prices and equity prices. The exposure to changes in interest rates is a result of financing through the issuance of fixed-rate preferred stocks and long-term debt. The following table provides the principal amounts by period of maturity and the weighted average effective interest rate for all such obligations outstanding in the period for the Company's obligations that are sensitive to interest rate changes. The exposure to equity price risk is generally associated with the Company's investments in equity securities of several telecommunications companies.

Interest Rate Risk

(000)	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value at Dec. 31, 2000
Fixed-rate long-term debt, including current portion	$160,944	$146,088	$207,998	$49,470	$63,134	$1,802,010	$2,429,644	$2,478,382
Average interest rate	7.07%	7.01%	7.00%	6.95%	6.92%	6.89%		
Fixed-rate preferred stocks with mandatory redemption requirements	$ 1,028	$ 2,208	$ 648	$ 648	$ 648	$ 27,722	$ 32,902	$ 34,395
Average interest rate	8.11%	8.12%	8.11%	8.14%	8.16%	8.19%		

(000)	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value at Dec. 31,1999
Fixed-rate long-term debt, including current portion	$37,932	$160,382	$146,424	$207,919	$64,411	$1,811,044	$2,428,112	$2,332,683
Average interest rate	7.14%	7.11%	7.05%	7.04%	6.99%	6.97%		
Fixed-rate preferred stocks with mandatory redemption requirements	$42,031	$ 996	$ 668	$ 608	$ 608	$ 29,109	$ 74,020	$ 74,627
Average interest rate	8.31%	8.11%	8.12%	8.15%	8.18%	8.20%		

Environmental

The Safe Drinking Water Act was last amended by Congress in 1996, and requires the U.S. Environmental Protection Agency (EPA) to develop certain drinking water regulations over a prescribed timeline. Those regulations included new health limits for contaminants, and the EPA was also required to establish new treatment standards. In addition, Congress mandated that annual notices be mailed to consumers about the quality of drinking water, a national plan be established to certify water plant operators, more stringent bottled water standards, the development of guidance for water conservation, a prohibition against non-viable water systems from starting up, and provision for low interest loans for projects which improve the purity of drinking water.

Many of these mandates have already been met by EPA, and the agency is working diligently to meet the others. In 2001, EPA expects to finalize regulation for a revised arsenic limit, a radon limit, a limitation on handling filter backwash water, and a way to determine the need to disinfect groundwater. A lower limit for disinfection by-products that became final in late 1998 becomes mandatory in late 2001. American Water System utilities are prepared to meet that mandate. EPA also intends to propose a revised, lower limit for disinfection by-products in 2001 to become effective approximately 2008.

The Company has been intimately involved in all these rule makings, and has developed cost estimates for all proposed rules. Through collaboration with EPA using the American Water System's national water quality and construction cost database, and national scope of operations, the Company has assisted the Agency in developing the most practical regulations. It is the specific intent of the Company to know in advance what capital requirements are associated with future health mandates, so it can plan for that investment accordingly. The American Water System has a history of complying with new regulations before the mandatory deadline. The Company also recognizes the value of satisfying our customers' desire for pleasing water, and our associates are committed to meeting those expectations.

The American Water System's record of compliance with the Safe Drinking Water Act in 2000 was outstanding. However, the Company's water quality commitment goes beyond the minimum requirements. A voluntary EPA Partnership for Safe Water has been embraced by the Company as part of its commitment to provide higher quality drinking water than required by regulation. Through a cooperative effort between federal and state health agencies, and water utilities, this Partnership requires a special effort to produce outstanding quality water, and to conduct a very thorough assessment of treatment facilities in order to identify even further quality improvements. Once those steps and milestones are reached, the EPA may grant an award. This type of voluntary program offers public health protection in lieu of federal mandates. The Company's accomplishments have been acknowledged by receipt of 34 EPA awards by the utility subsidiaries.

The record for other environmental compliance is equally impressive. Environmental legislation such as the Clean Water Act, the Resource Conservation and Recovery Act, and the Toxic Substances Control Act require prevention of air, water and land contamination. Wastes generated during water treatment and wastewater treatment must be properly treated and disposed of. American Water System utility subsidiaries recycle a large portion of liquid waste, in order to conserve water, and they hold permits to properly dispose of other materials to the land or watercourses. In addition, hazardous materials such as chemicals used in water treatment and oil products used in vehicles are appropriately contained to prevent release to the environment. Periodic environmental audits are conducted to ensure compliance with laws and regulations. Each utility maintains plans to notify the appropriate agencies and to clean up any accidental discharge which might occur.

In the future, it is expected that EPA will continue to develop more stringent standards for drinking water to protect public health to an even greater extent, and will develop more limiting regulation of materials that may be released to the environment. The American Water System continues to emphasize the criticality of keeping abreast of such future developments, to be involved in the development of such rules, and to meet all requirements imposed on the business entities. While these new regulations result in increased capital and operating costs, those costs are expected to be recognized in rates as they reflect better service to the customer and protection of the environment.

New Accounting Standards

In 2001, the Company will adopt Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board (FASB) in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

The adoption of this new accounting standard is not expected to have a significant effect on the Company's financial position or results of operations. The Company's contracts that meet the definition of a derivative are for normal purchases and normal sales, are expected to result in a physical delivery, and are of quantities expected to be used or sold over a reasonable period in the normal course of business. The Company has no hedging activities.

Forward Looking Information

Forward looking statements in this report, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made in accordance with the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. These factors include, among others, the following: the success of pending applications for rate increases; inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions; general economic and business conditions; competition; success of operating initiatives, advertising and promotional efforts; existence of adverse publicity or litigation; changes in business strategy or plans; quality of management; availability, terms and development of capital; business abilities and judgement of personnel; changes in, or the failure to comply with governmental regulations, particularly those affecting the environment and water quality; and other factors described in the filings of the Company with the SEC. The Company undertakes no obligation to publicly update or revise any forward looking statement, whether as a result of new information, future events or otherwise.

Management's Responsibility for Financial Reporting

The management of the Company is responsible for the preparation of the following financial statements and for their integrity and objectivity. These financial statements conform to accounting principles generally accepted in the United States of America and, where required, include amounts which represent management's best judgments and estimates. The Company's management also prepared the other information in this Annual Report and is responsible for its accuracy and consistency with the financial statements.

The Company maintains internal control systems to enable it to fulfill its obligations for responsible financial reporting. These systems include an Internal Audit Department which monitors internal controls and reports directly to the Audit Committee of the Board of Directors. Management views the purpose of internal auditing as an independent examination and assessment of Company activities related to compliance with policy, procedures and the law as well as the safeguarding of assets.

The Audit Committee of the Board of Directors consists of five independent directors who meet with the Company's senior financial personnel, internal auditors and independent accountants. They report their findings to the Board of Directors and recommend a firm of independent accountants.

The Company's independent accountants, PricewaterhouseCoopers LLP, are engaged to conduct an independent audit of the Company's financial statements in accordance with auditing standards generally accepted in the United States of America. Their audit includes obtaining a sufficient understanding of the internal control structure to establish a basis for reliance thereon in determining the nature, extent and timing of the tests applied in the audit of the financial statements. Their opinion on the fairness of the reported operating results, cash flows and financial condition appears below.

Ellen C Wolf

Ellen C. Wolf
Vice President and Chief Financial Officer

January 30, 2001

Report of Independent Accountants

To the Stockholders and Board of Directors of American Water Works Company, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income and of retained earnings, of cash flows, of capitalization and of common stockholders' equity present fairly, in all material respects, the financial position of American Water Works Company, Inc. and Subsidiary Companies at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

January 30, 2001,
except as to Note 4 which is as of March 1, 2001

Consolidated Balance Sheet

(Dollars in thousands)

At December 31,	2000	1999
Assets		
Property, plant and equipment		
Utility plant – at original cost less accumulated depreciation	**$5,202,833**	$4,939,408
Utility plant acquisition adjustments, net	**75,294**	51,697
Nonutility property, net of accumulated depreciation	**37,831**	36,265
Excess of cost of investments in subsidiaries over book equity at acquisition, net	**55,590**	57,118
Total property, plant and equipment	**5,371,548**	5,084,488
Current assets		
Cash and cash equivalents	**28,571**	43,100
Customer accounts receivable	**103,975**	91,353
Allowance for uncollectible accounts	**(2,575)**	(2,346)
Unbilled revenues	**83,878**	78,205
Miscellaneous receivables	**15,117**	10,936
Materials and supplies	**20,683**	20,058
Deferred vacation pay	**10,923**	10,902
Restricted funds	**224**	14,558
Other	**16,900**	11,915
Total current assets	**277,696**	278,681
Regulatory and other long-term assets		
Regulatory asset – income taxes recoverable through rates	**216,652**	214,349
Other investments	**73,997**	181,579
Debt and preferred stock expense	**47,630**	48,289
Deferred pension expense	**23,479**	32,872
Deferred postretirement benefit expense	**10,129**	10,264
Deferred treatment plant costs	**4,748**	5,811
Deferred business services project expenses	**4,796**	—
Deferred tank painting costs	**16,829**	14,178
Restricted funds	**8,343**	6,557
Other	**78,951**	75,138
Total regulatory and other long-term assets	**485,554**	589,037
Total assets	**$6,134,798**	$5,952,206

	2000	1999
Capitalization and Liabilities		
Capitalization		
Common stockholders' equity	**$1,669,677**	$1,634,798
Preferred stocks with mandatory redemption requirements	**—**	40,000
Preferred stocks without mandatory redemption requirements	**11,673**	11,673
Preferred stocks of subsidiaries with mandatory redemption requirements	**32,902**	34,020
Preferred stocks of subsidiaries without mandatory redemption requirements	**8,118**	8,118
Long-term debt		
American Water Works Company, Inc.	**159,000**	211,000
Subsidiaries	**2,112,165**	2,182,097
Total capitalization	**3,993,535**	4,121,706
Current liabilities		
Short-term debt	**412,179**	239,864
Current portion of long-term debt	**161,395**	38,355
Accounts payable	**52,447**	67,064
Taxes accrued, including federal income	**25,960**	16,030
Interest accrued	**42,641**	43,672
Accrued vacation pay	**11,564**	11,532
Other	**67,865**	75,191
Total current liabilities	**774,051**	491,708
Regulatory and other long-term liabilities		
Advances for construction	**216,125**	207,891
Deferred income taxes	**605,343**	610,460
Deferred investment tax credits	**40,098**	40,585
Accrued pension expense	**50,414**	63,095
Accrued postretirement benefit expense	**13,930**	12,471
Other	**37,823**	29,453
Total regulatory and other long-term liabilities	**963,733**	963,955
Contributions in aid of construction	**403,479**	374,837
Commitments and contingencies	**—**	—
Total capitalization and liabilities	**$6,134,798**	$5,952,206

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income and Comprehensive Income and of Retained Earnings

(Dollars in thousands, except per share amounts)

For the years ended December 31,	2000	1999	1998
Consolidated Income and Comprehensive Income			
Operating revenues	**$1,350,590**	$1,260,857	$1,200,037
Operating expenses			
Operation and maintenance	**603,305**	566,948	536,519
Depreciation and amortization	**165,888**	151,641	139,661
General taxes	**125,219**	122,674	118,132
	894,412	841,263	794,312
Operating income	**456,178**	419,594	405,725
Other income (deductions)			
Interest	**(191,783)**	(178,215)	(168,779)
Allowance for other funds used during construction	**7,804**	11,849	9,803
Allowance for borrowed funds used during construction	**5,891**	10,577	6,312
Amortization of debt expense	**(2,770)**	(2,754)	(2,494)
Preferred dividends of subsidiaries	**(3,165)**	(3,311)	(3,408)
Merger related costs	**—**	(20,535)	(352)
Other, net	**(5,788)**	(6,856)	(820)
	(189,811)	(189,245)	(159,738)
Income before income taxes	**266,367**	230,349	245,987
Provision for income taxes	**105,306**	91,400	95,548
Net income	**161,061**	138,949	150,439
Dividends on preferred stocks	**3,700**	3,984	3,984
Net income to common stock	**157,361**	134,965	146,455
Other comprehensive income			
Unrealized gain (loss) on securities	**(113,552)**	102,604	47,083
Income taxes on other comprehensive income	**46,394**	(43,281)	(17,959)
Other comprehensive income (loss), net	**(67,158)**	59,323	29,124
Comprehensive income	**$ 90,203**	$ 194,288	$ 175,579
Average shares of basic common stock outstanding	**97,988**	96,544	95,234
Basic and diluted earnings per common share on average shares outstanding	**$ 1.61**	$ 1.40	$ 1.54
Consolidated Retained Earnings			
Balance at beginning of year	**$1,001,029**	$ 945,434	$ 870,368
Add: net income	**161,061**	138,949	150,439
Less: treasury stock issuances	**801**	—	—
	1,161,289	1,084,383	1,020,807
Deduct: dividends paid			
Preferred stock	**3,244**	3,528	3,528
Preference stock	**456**	456	456
Common stock – $.90 per share in 2000, $.86 per share in 1999, $.82 per share in 1998	**88,103**	76,479	65,781
National Enterprises Inc. common stock	**—**	2,891	5,608
	91,803	83,354	75,373
Balance at end of year	**$1,069,486**	$1,001,029	$ 945,434

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(Dollars in thousands)

For the years ended December 31,	2000	1999	1998
Cash Flows from Operating Activities			
Net income	**$ 161,061**	$ 138,949	$ 150,439
Adjustments			
Depreciation and amortization	**165,888**	151,641	139,661
Provision for deferred income taxes	**27,431**	31,411	29,922
Provision for losses on accounts receivable	**8,608**	7,731	6,832
Allowance for other funds used during construction	**(7,804)**	(11,849)	(9,803)
Employee stock plan expenses	**3,330**	5,185	5,648
Employee benefit expenses greater (less) than funding	**(1,698)**	4,217	(1,848)
Deferred business services project expense	**(4,586)**	—	—
Deferred tank painting costs	**(3,188)**	(3,349)	(4,081)
Deferred rate case expense	**(2,108)**	(2,024)	(1,894)
Amortization of deferred charges	**10,671**	13,985	10,709
Other, net	**(6,205)**	(1,352)	(7,443)
Changes in assets and liabilities, net of effects from acquisitions			
Accounts receivable	**(24,169)**	(10,934)	(16,327)
Unbilled revenues	**(5,114)**	(2,262)	(4,064)
Other current assets	**(5,370)**	(1,978)	(1,130)
Accounts payable	**(14,644)**	(3,150)	13,208
Taxes accrued, including federal income	**9,423**	(8,751)	5,591
Interest accrued	**(1,031)**	1,809	4,212
Other current liabilities	**(7,349)**	20,113	(7,437)
Net cash from operating activities	**303,146**	329,392	312,195
Cash Flows from Investing Activities			
Construction expenditures	**(377,217)**	(467,351)	(437,627)
Allowance for other funds used during construction	**7,804**	11,849	9,803
Acquisitions	**(51,821)**	(41,764)	(46,203)
Proceeds from the disposition of property, plant and equipment	**6,827**	2,703	1,484
Removal costs related to property, plant and equipment retirements	**(14,309)**	(15,409)	(7,543)
Restricted funds	**12,548**	1,737	(14,786)
Net cash used in investing activities	**(416,168)**	(508,235)	(494,872)
Cash Flows from Financing Activities			
Proceeds from long-term debt	**47,908**	128,332	330,174
Proceeds from common stock, net of issuance costs	**33,304**	36,617	29,942
Net borrowings (repayments) under short-term debt agreements	**172,315**	150,024	(46,172)
Advances and contributions for construction, net of refunds	**31,565**	43,121	38,719
Debt issuance costs	**(2,262)**	(5,376)	(8,070)
Repayment of long-term debt	**(46,800)**	(82,830)	(75,042)
Redemption of preferred stocks	**(41,118)**	(3,278)	(2,438)
Dividends paid	**(91,803)**	(83,354)	(75,373)
Purchase of common stock for treasury	**(4,616)**	(1,190)	—
Net cash from financing activities	**98,493**	182,066	191,740
Net increase (decrease) in cash and cash equivalents	**(14,529)**	3,223	9,063
Cash and cash equivalents at beginning of year	**43,100**	39,877	30,814
Cash and cash equivalents at end of year	**$ 28,571**	$ 43,100	$ 39,877
Cash paid during the year for:			
Interest, net of capitalized amount	**$ 196,841**	$ 180,475	$ 169,044
Income taxes	**$ 57,725**	$ 69,015	$ 75,510

Common stock issued in lieu of cash in connection with the Employee Stock Ownership Plan. the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan totaled $1,488 in 2000, $5,428 in 1999 and $6,854 in 1998. Common stock placed into treasury in connection with the Employee Stock Ownership Plan, the Savings Plan for Employees and the 2000 Stock Award and Incentive Plan totaled $4.872 in 2000 and $3,675 in 1999. Capital lease obligations of $1,590 were recorded in 1998.

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Capitalization

(Dollars in thousands, except per share amounts)

At December 31,	2000	1999
Common Stockholders' Equity:		
Common stock – $1.25 par value, authorized 300,000,000 shares, issued 98,819,845 shares in 2000 and 97,303,759 shares in 1999	**$ 123,525**	$ 121,630
Paid-in capital	**454,568**	424,434
Retained earnings	**1,069,486**	1,001,029
Accumulated other comprehensive income	**25,303**	92,461
Unearned compensation	**(359)**	(1,056)
Treasury stock at cost – 129,216 shares in 2000 and 109,675 shares in 1999	**(2,846)**	(3,700)
	1,669,677	1,634,798

At December 31, 2000, common shares reserved for issuance in connection with the Company's stock plans were 80,865,863 shares for the Stockholder Rights Plan, 2,796,096 shares for the Dividend Reinvestment and Stock Purchase Plan, 565,493 shares for the Employees' Stock Ownership Plan, 532,381 shares for the Savings Plan for Employees and 3,434,935 shares for the 2000 Stock Award and Incentive Plan.

Preferred Stocks With Mandatory Redemption Requirements:		
Cumulative preferred stock – $25 par value, authorized 1,770,000 shares 8.5% series (non-voting), outstanding 1,600,000 shares, redeemed at par value on December 1, 2000	—	40,000
Preferred Stocks Without Mandatory Redemption Requirements:		
Cumulative preferred stock – $25 par value 5% series (one-tenth of a vote per share), outstanding 101,777 shares	**2,544**	2,544
Cumulative preference stock – $25 par value, authorized 750,000 shares 5% series (non-voting), outstanding 365,158 shares	**9,129**	9,129
Cumulative preferential stock – $35 par value, authorized 3,000,000 shares (one-tenth of a vote per share) no outstanding shares	—	—
	11,673	11,673
Preferred Stocks of Subsidiaries:		
Dividend rate		
3.9% to less than 5%	**4,610**	4,917
5% to less than 6%	**4,669**	4,726
6% to less than 7%	**1,455**	1,559
7% to less than 8%	**3,984**	4,034
8% to less than 9%	**23,050**	23,350
9% to less than 10%	**3,112**	3,272
10% to less than 11%	**140**	280
	41,020	42,138

Preferred stock agreements of certain subsidiaries require annual sinking fund payments in varying amounts and permit redemption at various prices at the option of the subsidiaries on thirty days notice, or in the event of involuntary liquidation, at par value plus accrued dividends. Sinking fund payments for the next five years will amount to $1,028 in 2001, $2,208 in 2002, $648 in 2003, $648 in 2004 and $648 in 2005.

Redemptions of preferred stock amounted to $41,118 in 2000 and $3,278 in 1999.

	Current Maturities	2000	1999
Long-Term Debt of American Water Works Company, Inc.:			
7.41% Series C debentures, due May 1, 2003	—	$ 81,000	$ 81,000
6.21% Series D debentures, due July 2, 2001	$ 50,000	—	50,000
6.28% Series D debentures, due July 2, 2002	—	10,000	10,000
6.28% Series D debentures, due July 2, 2003	—	45,000	45,000
6.32% Series D debentures, due July 2, 2004	—	15,000	15,000
7.02% Senior Notes, due August 1, 2005	2,000	8,000	10,000
	52,000	159,000	211,000
Long-Term Debt of Subsidiaries:			
Interest rate			
1% to less than 2%	368	16,913	8,486
3% to less than 4%	40	353	393
4% to less than 5%	442	3,552	3,994
5% to less than 6%	57	487,922	459,304
6% to less than 7%	440	513,182	513,628
7% to less than 8%	11,141	706,580	711,221
8% to less than 9%	68,200	113,200	177,900
9% to less than 10%	26,909	214,646	249,555
10% to less than 11%	1,347	53,352	54,699
	108,944	2,109,700	2,179,180
Capital leases	451	2,465	2,917
	$109,395	2,112,165	2,182,097
		$ 3,993,535	$ 4,121,706

Maturities of long-term debt of subsidiaries, including sinking fund requirements, during the next five years will amount to $109,395 in 2001, $134,494 in 2002, $80,433 in 2003, $47,810 in 2004 and $61,229 in 2005.

Long-term debt of subsidiaries is substantially secured by utility plant and by a pledge of certain securities of subsidiaries and affiliates.

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Common Stockholders' Equity

(Dollars in thousands, except per share amounts)

	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Unearned Compensation	Treasury Stock Shares	Treasury Stock At Cost	Common Stockholders' Equity
Balance at December 31, 1997	94,622,612	$118,278	$350,127	$870,368	$4,014	($816)	800	($25)	$1,341,946
Net income	—	—	—	150,439	—	—	—	—	150,439
Dividend reinvestment	249,250	312	7,082	—	—	—	—	—	7,394
Stock purchase	600,036	750	17,267	—	—	—	—	—	18,017
Employees' stock ownership plan	95,499	119	2,903	—	—	—	—	—	3,022
Savings plan for employees	193,943	242	5,593	—	—	—	—	—	5,835
Incentive plan	70,450	88	1,283	—	—	(164)	—	—	1,207
Other comprehensive income	—	—	—	—	29,124	—	—	—	29,124
Dividends:									
Preferred stocks	—	—	—	(3,984)	—	—	—	—	(3,984)
Common stock	—	—	—	(71,389)	—	—	—	—	(71,389)
Balance at December 31, 1998	95,831,790	119,789	384,255	945,434	33,138	(980)	800	(25)	1,481,611
Net income	—	—	—	138,949	—	—	—	—	138,949
Dividend reinvestment	291,808	365	7,896	—	—	—	—	—	8,261
Stock purchase	839,288	1,050	22,714	—	—	—	—	—	23,764
Employees' stock ownership plan	109,932	137	3,040	—	—	—	—	—	3,177
Savings plan for employees	200,153	251	5,699	—	—	—	—	—	5,950
Incentive plan	30,788	38	830	—	—	(76)	—	—	792
Other comprehensive income	—	—	—	—	59,323	—	—	—	59,323
Treasury stock	—	—	—	—	—	—	108,875	(3,675)	(3,675)
Dividends:									
Preferred stocks	—	—	—	(3,984)	—	—	—	—	(3,984)
Common stock	—	—	—	(79,370)	—	—	—	—	(79,370)
Balance at December 31, 1999	97,303,759	121,630	424,434	1,001,029	92,461	(1,056)	109,675	(3,700)	1,634,798
Net income	—	—	—	**161,061**	—	—	—	—	**161,061**
Dividend reinvestment	**389,151**	**486**	**8,337**	—	—	—	—	—	**8,823**
Stock purchase	**1,029,257**	**1,287**	**22,256**	—	—	—	—	—	**23,543**
Employees' stock ownership plan	**32,134**	**40**	**631**	—	—	—	—	—	**671**
Savings plan for employees	**65,544**	**82**	**1,293**	—	—	—	—	—	**1,375**
Incentive plan	—	—	**(2,383)**	—	—	**697**	—	—	**(1,686)**
Other comprehensive income	—	—	—	—	**(67,158)**	—	—	—	**(67,158)**
Treasury stock	—	—	—	**(801)**	—	—	**19,541**	**854**	**53**
Dividends:									
Preferred stocks	—	—	—	**(3,700)**	—	—	—	—	**(3,700)**
Common stock	—	—	—	**(88,103)**	—	—	—	—	**(88,103)**
Balance at December 31, 2000	**98,819,845**	**$123,525**	**$454,568**	**$1,069,486**	**$25,303**	**($359)**	**129,216**	**($2,846)**	**$1,669,677**

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

(Dollars in thousands, except per share amounts)

Note 1: Organization and Operation

American Water Works Company, Inc. through its regulated and unregulated subsidiaries provides water and wastewater service in 23 states. As public utilities, its regulated subsidiaries function under rules and regulations prescribed by state regulatory commissions. The Company manages and operates water and wastewater facilities through its unregulated contract management subsidiary, American Water Services. This subsidiary had been operated as a joint venture until December 31, 1999 when the Company acquired its partner's interest (see Contract Management Business in Note 3). In addition, American Water Resources is a wholly owned subsidiary whose function is to provide water and wastewater related services and products.

The Company, however, reflects one reportable segment for financial statement purposes as the Company's utility subsidiaries represent similar entities offering substantially identical water and wastewater services to similar customers. The Company's unregulated operations, primarily the contract management business, has not been reflected as a reportable segment as revenues, net income and assets associated with these operations are less than 10% of those for the Company as a whole.

Note 2: Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and all of its subsidiaries. Intercompany accounts and transactions are eliminated. Prior to January 1, 2000 the results of operations of the Company's former contract management business joint venture were accounted for under the equity method of accounting (see Contract Management Business in Note 3).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Regulation

The utility subsidiaries have incurred various costs and received various credits which have been reflected as regulatory assets and liabilities on the Company's consolidated balance sheet. Accounting for such costs and credits as regulatory assets and liabilities is in accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). This statement sets forth the application of generally accepted accounting principles for those companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, utility companies defer costs and credits on the balance sheet as regulatory assets and liabilities when it is probable that those costs and credits will be recognized in the rate making process in a period different from the period in which they would have been reflected in income by an unregulated company. These deferred regulatory assets and liabilities are then reflected in the income statement in the period in which the same amounts are reflected in the rates charged for service.

Property, Plant and Equipment

Additions to utility plant and replacements of retirement units of property are capitalized. Costs include material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. The costs incurred to acquire and internally develop computer software for internal use are capitalized as a unit of property. Repairs, maintenance and minor replacements of property are charged to current operations. The cost of property units retired in the ordinary course of business plus removal cost (less salvage) is charged to accumulated depreciation. The cost of property, plant and equipment is generally depreciated using the straight-line method over the estimated service lives of the assets. The depreciation rates, based on the average balance of depreciable property, were 2.54% in 2000, 2.51% in 1999 and 2.51% in 1998.

Utility plant acquisition adjustments include the difference between the purchase price of utility plant and its original cost (less accumulated depreciation) and are generally being amortized over a period of 40 years.

The excess of cost of investments in subsidiaries over book equity at acquisition includes $33,000 of goodwill associated with the Company's acquisition of its joint venture partner's interest in the contract management business that is being amortized over a period of 20 years (see Contract Management Business in Note 3). The balance of the excess cost of investments in subsidiaries is primarily attributable to various acquisitions of utility subsidiaries that occurred prior to October 31, 1970, and it is not being amortized because, in the opinion of management, there has been no diminution in value.

Cash and Cash Equivalents

Substantially all of the Company's cash is invested in interest bearing accounts. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of investment grade commercial paper, bank certificates of deposit and United States Government securities. Cash equivalents are stated at cost plus accrued interest which approximates market value.

Notes to Financial Statements

(Dollars in thousands, except per share amounts)

Materials and Supplies

Materials and supplies are stated at average cost.

Regulatory Assets

The Company has recorded a regulatory asset for the additional revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse. These temporary differences are primarily related to the difference between book and tax depreciation on property placed in service before the adoption by the regulatory authorities of full normalization for rate making purposes.

The regulatory asset for income taxes recoverable through rates is net of the reduction expected in future revenues as deferred taxes previously provided, attributable to the difference between the state and federal income tax rates under prior law and the current statutory rates, reverse over the average remaining service lives of the related assets.

Debt expense is amortized over the lives of the respective issues. Call premiums on the redemption of long-term debt, as well as unamortized debt expense, are deferred and amortized to the extent they will be recovered through future service rates. Expenses of preferred stock issues without sinking fund provisions are amortized over 30 years from date of issue; expenses of issues with sinking fund provisions are charged to operations as shares are retired.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain subsidiaries. These costs will be recovered in future service rates as contributions are made to the pension plan.

Postretirement benefit expense in excess of the amount recovered in rates through 1997 has been deferred by certain subsidiaries. These costs are now recognized in the rates charged for water service and will be fully recovered over a 20-year period ending in 2012 as authorized by the regulatory authorities.

Deferred treatment plant costs consist of operating expenses, including depreciation and property taxes, and the carrying charges associated with several water treatment plants and related facilities from the time the assets were placed in service until recovery of such costs is allowed in future service rates. These costs have been recognized in the rates charged for water service and are being amortized over a 10-year period as authorized by the regulatory authorities.

Deferred business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that are being established. These costs are being deferred as it is expected that these costs will be recovered in the rates charged for utility service in the future.

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from 4 to 20 years, as authorized by the regulatory authorities in their determination of rates charged for service.

Other Investments and Accumulated Other Comprehensive Income

Other investments include primarily equity securities of publicly and privately held companies. Investments in publicly traded securities are classified as available for sale and are recorded in the balance sheet at fair market value with the change in market value, net of the tax effect, recorded as part of comprehensive income. Investments in privately held companies are carried at cost.

The principal publicly traded investments are approximately 4,000,000 shares of ITC^ DeltaCom, Inc. (NASDQ: ITCD), 600,000 shares of Powertel, Inc. (NASDQ: PTEL) and 50,000 shares of SJW Corp. (AMEX: SJW). The cost basis of these publicly traded securities is $23,027, and the fair value of these investments is determined using quoted market prices. There were no realized gains or losses recorded for any of the years presented below, as the Company did not sell any of the securities during those years.

The components of accumulated other comprehensive income balances at December 31 are as follows:

	2000	1999	1998
Beginning balance	**$92,461**	$33,138	$ 4,014
Unrealized gain (loss) on securities	**(113,552)**	102,604	47,083
Income taxes on other comprehensive income	**46,394**	(43,281)	(17,959)
Ending balance	**$25,303**	$92,461	$33,138

The Company has equity investments in ITC Holding Company, Inc., Knology, Inc. and United States Sugar Corporation that are not publicly traded. The cost basis of these securities was $9,554 at December 31, 2000.

Other Current Liabilities

Other current liabilities at December 31, 2000 and 1999 include payables to banks of $17,288 and $21,621 respectively, which represent checks issued but not presented to banks for payment, net of the related bank balance.

Advances and Contributions in Aid of Construction

Utility subsidiaries may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the regulatory authorities, advances for construction are refundable for limited periods of time as new customers begin to receive service. Amounts which are no longer refundable are reclassified to contributions in aid of construction. Utility plant funded by advances and contributions is excluded from rate base and is generally not depreciated for rate making purposes. Generally, advances and contributions received during the period January 1, 1987 through June 12, 1996 have been included in taxable income and the related property is depreciable for tax purposes. As a result of a tax law change, advances and contributions received subsequent to June 12, 1996 are excluded from taxable income and the related property is not depreciable for tax purposes.

On January 11, 2001 the Internal Revenue Service issued regulations that excluded lateral service lines from its definition of contributions in aid of construction that are not included in taxable income. These customer connection fees are defined as the cost of installing a connection or service line from the Company's main lines to the lines owned by the customer. The regulations were effective immediately, and the Company is now paying tax on money or property received for these connections.

Recognition of Revenues
Revenues of the regulated utility subsidiaries include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the date of the latest meter reading to the end of the accounting period.

Revenue from American Water Services' long-term service contracts is recognized over the contract term based on the percentage of costs incurred during the period compared to the total estimated costs to be incurred over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes known. Revenue in excess of billings on service contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on service contracts are recorded as a liability on the Company's balance sheet until the above revenue recognition criteria are met. Changes in contract performance and related estimated contract profitability may result in revisions to costs and revenues and are recognized in the period in which revisions are determined.

Income Taxes
The Company and its subsidiaries participate in a consolidated federal income tax return. Federal income tax expense for financial reporting purposes is provided on a separate return basis, except that the federal income tax rate applicable to the consolidated group is applied to separate company taxable income and the benefit of net operating losses, principally at the parent company level, is recognized currently.

Certain income and expense items are accounted for in different time periods for financial reporting than for income tax reporting purposes. Deferred income taxes have been provided on the difference between the tax bases of assets and liabilities and the amounts at which they are carried in the financial statements. These deferred income taxes are based on the enacted tax rates to be in effect when such temporary differences are expected to reverse. The utility subsidiaries also recognize regulatory assets and liabilities for the effect on revenues expected to be realized as the tax effects of temporary differences previously flowed through to customers reverse.

Investment tax credits have been deferred and are being amortized to income over the average estimated service lives of the related assets.

Allowance For Funds Used During Construction (AFUDC)
AFUDC is a non-cash credit to income with a corresponding charge to utility plant which represents the cost of borrowed funds and a return on equity funds devoted to plant under construction. The utility subsidiaries record AFUDC to the extent permitted by the regulatory authorities.

Environmental Costs
Environmental expenditures that relate to current operations or provide a future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that these costs will be incurred and can be reasonably estimated.

Asset Impairment
Long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets, on a separate entity basis, may not be recoverable. If the sum of the future cash flows expected to result from the use of the assets and their eventual disposition is less than the carrying amount of the assets, an impairment loss is recognized. Measurement of an impairment loss is based on the fair value of the assets. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Earnings Per Share
The average number of shares used to calculate diluted earnings per share includes 4,784, 51,837 and 57,831 of potential common shares issuable in connection with the long-term incentive program in 2000, 1999 and 1998, respectively, and 45,227 potential common shares for employee stock options in 2000 (see Note 9).

New Accounting Standards
In 2001, the Company will adopt Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended. This statement establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 was issued by the Financial Accounting Standards Board (FASB) in June of 1998 and requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

The adoption of this new accounting standard is not expected to have a significant effect on the Company's financial position or results of operations. The Company's contracts that meet the definition of a derivative are for normal purchases and normal sales, are expected to result in a physical delivery, and are of quantities expected to be used or sold over a reasonable period in the normal course of business. The Company has no hedging activities.

Notes to Financial Statements

(Dollars in thousands, except per share amounts)

Reclassification

Certain reclassifications have been made to conform previously reported data to the current presentation.

Note 3: Acquisitions

National Enterprises Inc.

On June 25, 1999, the Company completed the acquisition of National Enterprises Inc., a privately owned company, in a transaction valued at $700,000. The transaction was accomplished through a tax free exchange of 14,937,000 shares of the Company's stock for all of the outstanding shares of National Enterprises and the assumption of $241,000 of debt. Subsidiaries of National Enterprises provided water service to approximately 504,000 customers in Missouri, Illinois, Indiana and New York. National Enterprises also had passive investments in the telecommunications industry owning 4,000,000 shares of ITC^DeltaCom, Inc. and 600,000 shares of Powertel, Inc. as well as an interest in privately held ITC Holding Company, Inc.

This business combination has been accounted for as a pooling of interests and, accordingly, the consolidated financial statements for periods prior to the combination were restated to include the accounts and results of operations of National Enterprises.

During 1999 the Company recorded a charge of $20,535, and related tax benefits of $7,630, reflecting the one-time costs incurred in connection with the merger. The merger related costs consist primarily of severance costs as well as vesting of certain benefits, professional fees and other costs. The merger related costs have been reported on a separate line in the consolidated statement of income and comprehensive income.

Water Utility Subsidiaries of United Water Resources Inc.

On May 31, 2000, the Company completed its acquisition of five water utilities in Missouri, Indiana, Illinois, and Virginia from United Water Resources Inc. for approximately $50,000 in cash. These water utilities provide service to 35,000 customers.

Contract Management Business

On December 31, 1999, the Company finalized the purchase of its joint venture partner Anglian Water's interest in AmericanAnglian Environmental Technologies for $32,000. This business, which now operates as American Water Services, manages and operates 175 water and wastewater facilities in nine states.

Effective January 1, 2000 the results of operations of American Water Services are being reported on a consolidated basis. Previously, the results of the joint venture were being accounted for under the equity method.

Hawaii Wastewater System

On April 1, 1998, the Company acquired East Honolulu Community Services, Inc. ("EHCS"), a suburban Honolulu wastewater utility located on the eastern tip of Oahu, Hawaii. The Company acquired this system for $17,300 from Maunalua Associates, Inc., a subsidiary of Kemper Corporation. This utility, now operating as Hawaii-American Water Company, provides wastewater service to approximately 10,000 customers in the community of Hawaii Kai.

Note 4: Pending Acquisitions

Water and Wastewater Assets of Citizens Communications Company

On October 15, 1999, the Company entered into an agreement to acquire all of the water and wastewater utility assets of Citizens Communications Company (formerly Citizens Utilities Company) (NYSE:CZN) for $835,000 in cash and debt. Citizens provides water and wastewater service to 305,000 customers in Arizona, California, Illinois, Indiana, Ohio and Pennsylvania. For the latest fiscal year ended December 31, 2000, the operations being acquired had revenues of approximately $110,000.

Regulatory agencies in Pennsylvania, Indiana and Ohio have approved the acquisition of Citizen's water and wastewater assets in those states and evidentiary hearings have been completed in Arizona and Illinois. Decisions are anticipated in Arizona during the first quarter of 2001, in Illinois during the second quarter of 2001 and in California during the third quarter of 2001.

The Office of Ratepayer Advocates of the California Public Utilities Commission (CPUC) issued a report on October 16, 2000 opposing the Company's acquisition of the California water and wastewater assets of Citizens. The Company strongly disagrees with this report and has filed rebuttal testimony with the CPUC contesting the report's analysis and conclusions. Members of the staff of the Illinois Commerce Commission have also submitted testimony opposing the Citizens acquisition. Consummation of the Citizens transaction requires approval by regulatory agencies in each of the six states in which the assets are located. The Company continues to work to complete this acquisition, but recognizes that there is no assurance that approval will be obtained on a timely basis, if at all.

SJW Corp.

On October 28, 1999, the Company agreed to acquire all of the common stock of SJW Corp. (AMEX:SJW). On March 1, 2001 the Company and SJW announced that, in light of additional delays outlined in a new procedural scheduling order issued by the California Public Utilities Commission (CPUC) on February 20, 2001, they had mutually agreed to terminate the merger agreement between them immediately. The CPUC scheduling order extended the date for a final decision regarding review of the merger application to at least September 2001, and thereby made it impossible to plan and effectively implement the transaction contemplated by the agreement.

City of Coatesville Pennsylvania Water and Wastewater Systems

On February 15, 2000 one of the Company's subsidiaries agreed to purchase the City of Coatesville Authority's water and wastewater utility systems for $48,000. These systems provide water service to 8,600 customers and wastewater service to 6,500 customers. It is expected that the transaction will be completed in the first quarter of 2001.

Note 5: Utility Plant

The components of utility plant by category at December 31 are as follows:

	2000	1999
Water plant		
Sources of supply	**$ 287,892**	$ 262,662
Treatment and pumping	**1,467,320**	1,336,457
Transmission and distribution	**2,935,265**	2,768,971
Services, meters and fire hydrants	**1,062,997**	994,843
General structures and equipment	**476,632**	421,621
Wastewater plant	**81,716**	72,606
Construction work in progress	**167,397**	234,823
	6,479,219	6,091,983
Less-accumulated depreciation	**1,276,386**	1,152,575
	$5,202,833	$4,939,408

Note 6: Dividend Reinvestment and Stock Purchase Plan

The Company's Dividend Reinvestment and Stock Purchase Plan provides for optional cash purchases of newly issued common stock of the Company. In addition to permitting record holders of common stock to have all or part of their dividends automatically reinvested in additional shares of common stock. the plan permits stockholders to purchase up to five thousand dollars of common stock each month directly from the Company.

Note 7: Shareholders Rights Plan

On June 1, 2000 the Company announced that it had amended its Shareholder Rights Agreement. The Agreement provides for certain consequences if more than a stated percentage of the Company's common stock is acquired by any person or group of persons without prior consent of the Company's Board of Directors. The amendment lowered that percentage, and the percentage of ownership that triggers the dilutive effect of the rights issued under the Agreement, to 10% of the Company's outstanding common shares. The Company is not aware of any efforts to acquire control at this time.

Each Right under the amended plan entitles shareholders to buy one share of the Company's common stock at an exercise price of $150. Each Right entitles its holder to purchase, at the Right's then-current exercise price, shares of the Company's common stock, or a number of shares of an acquiring company's stock, which would have a market value of two times the exercise price. The Rights become exercisable if there is a public announcement that a person or group acquires, or commences a tender offer to acquire, 10% or more of the outstanding shares of the Company. The Rights also become exercisable if the Company is acquired in a merger or a person or group acquires 10% or more of the outstanding shares of the Company.

The Rights are redeemable, in whole, but not in part, by the Company at a price of $.0005 per Right under certain circumstances. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the earnings per share of the Company.

Notes to Financial Statements

(Dollars in thousands, except per share amounts)

Note 8: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering substantially all associates. Benefits under the plans are based on the associate's years of service and compensation. The Company's funding policy is to contribute at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Pension plan assets are invested in a number of investments including equity mutual funds, United States Government securities, guaranteed interest contracts with a major insurance company and publicly traded bonds.

The Company realized a $16,574 settlement gain in 2000 in connection with the purchase of non-participating annuity contracts to cover vested benefits of certain retirees. These benefits had previously been provided through an immediate participation guarantee contract.

Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for water services as contributions are made to the plans (see Regulatory Assets in Note 2). These subsidiaries have recorded their portion of the settlement gain as a reduction of the regulatory asset.

The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain associates of the Company and its subsidiaries.

The Company maintains postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The adoption of a new accounting standard for other postretirement benefits caused a transition obligation of $143,391 at January 1, 1993 which is being amortized over 20 years. The Company's policy is to fund postretirement benefit costs accrued. Plan assets are invested in equity and bond mutual funds.

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	**2000**	1999
Change in benefit obligation				
Benefit obligation at January 1	**$548,074**	$607,065	**$204,441**	$208,387
Service cost	**14,198**	17,614	**6,728**	7,581
Interest cost	**39,952**	41,151	**16,455**	14,938
Plan participants' contributions	—	—	**1,080**	875
Amendments	—	1,271	**637**	—
Actuarial (gain) loss	**51,057**	(94,959)	**20,864**	(18,192)
Acquisitions	**374**	—	**1,035**	—
Settlement	**(212,660)**	—	—	—
Benefits paid	**(17,532)**	(24,068)	**(11,047)**	(9,148)
Benefit obligation at December 31	**$423,463**	$548,074	**$240,193**	$204,441
Change in plan assets				
Fair value of plan assets at January 1	**$598,302**	$556,668	**$148,014**	$117,351
Actual return on plan assets	**7,404**	64,463	**(3,341)**	18,343
Employer contribution	**1,109**	1,239	**15,641**	20,593
Plan participants' contributions	—	—	**1,080**	875
Settlement	**(212,660)**	—	—	—
Acquisitions	**374**	—	—	—
Benefits paid	**(17,532)**	(24,068)	**(11,047)**	(9,148)
Other	**3,776**	—	—	—
Fair value of plan assets at December 31	**$380,773**	$598,302	**$150,347**	$148,014
Funded status at December 31	**($42,690)**	$50,228	**($89,846)**	($56,427)
Unrecognized net transition obligation (asset)	**(2,554)**	(6,698)	**81,681**	88,556
Unrecognized prior service cost	**7,356**	10,163	**6,249**	5,393
Unrecognized net actuarial gain	**(12,526)**	(116,788)	**(12,014)**	(49,993)
Net amount recognized	**($50,414)**	($63,095)	**($13,930)**	($12,471)
Amounts recognized in the balance sheet consist of:				
Prepaid benefit cost	**$ 439**	$ 274	**$ —**	$ 23
Accrued benefit liability	**(50,853)**	(63,369)	**(13,930)**	(12,494)
Additional minimum liability	**(1,078)**	(1,048)	—	—
Intangible asset	**1,078**	1,048	—	—
Net amount recognized	**($50,414)**	($63,095)	**($13,930)**	($12,471)

The projected benefit obligation and accumulated benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets (the supplemental plans are unfunded) were $21,847 and $18,131, respectively, as of December 31, 2000, and $16,787 and $14,414, respectively, as of December 31, 1999.

	2000	1999	1998
Components of net periodic pension benefit cost			
Service cost	**$14,198**	$17,614	$16,541
Interest cost	**39,952**	41,151	39,079
Expected return on plan assets	**(44,146)**	(46,387)	(43,357)
Amortization of transition asset	**(1,828)**	(2,159)	(2,159)
Amortization of prior service cost	**2,405**	2,312	2,230
Recognized net actuarial (gain) loss	**(5,580)**	19	(964)
Net periodic pension benefit cost	**5,001**	12,550	11,370
Settlement gain	**(16,574)**	—	—
Total pension (income) cost	**($11,573)**	$12,550	$11,370
Components of net periodic other postretirement benefit cost			
Service cost	**$ 6,728**	$ 7,581	$ 6,224
Interest cost	**16,455**	14,938	13,452
Expected return on plan assets	**(11,976)**	(9,759)	(7,808)
Amortization of transition obligation	**6,812**	6,812	6,813
Amortization of prior service cost	**455**	458	458
Recognized net actuarial (gain) loss	**(2,407)**	213	(699)
Net periodic other postretirement benefit cost	**$16,067**	$20,243	$18,440

	Pension Benefits		Other Postretirement Benefits	
	2000	1999	2000	1999
Weighted-average assumptions as of December 31				
Discount rate	**7.50%**	8.00%	**7.50%**	8.00%
Expected return on plan assets	**9.00%**	8.50%	**8.30%**	7.90%
Rate of compensation increase	**4.75%**	4.75%	**4.75%**	4.75%

The health care cost trend rate, used to calculate the Company's cost and obligation for postretirement health care benefits, is an 8.0% annual rate in 2001 that is assumed to decrease gradually to a 5.0% annual rate in 2007 and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 3,497	$ (2,933)
Effect on other postretirement benefit obligation	$30,996	$(26,626)

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow substantially all associates to save for retirement on a tax-deferred basis. Compensation expense associated with these savings plans was $3,373 in 2000, $3,491 in 1999 and $3,391 in 1998.

Included in the above expenses were the Company's matching contributions to the primary savings plan totaling $2,958 for 2000, $2,781 for 1999 and $2,705 for 1998 that are invested in a fund of Company common stock. The trustee of this plan may purchase shares of the Company's common stock at the prevailing market price from the Company, in the open market, or in a private transaction.

Employees' Stock Ownership Plan

The Company maintains an Employees' Stock Ownership Plan which provides for beneficial ownership of Company common stock by most associates who are not included in a bargaining unit. Each participating associate can elect to contribute an amount that does not exceed 2% of their wages. In addition to the associate's participation, the Company makes a contribution equivalent to 1/2% of each participant's qualified compensation, and matches 100% of the contribution by each participant. The Company recorded as an expense contributions of $1,765 for 2000, $1,805 for 1999 and $1,706 for 1998 that it made to the plan. The trustee of the plan may purchase shares of the Company's common stock from the Company, in the open market, or in a private transaction.

Notes to Financial Statements

(Dollars in thousands, except per share amounts)

Note 9: Stock-Based Compensation

On May 4, 2000 the Company's shareholders approved the 2000 Stock Award and Incentive Plan (2000 Plan). The Plan replaced the Company's previous Long-Term Performance-Based Incentive Plan (Previous Plan) that had been in effect since 1994. Under the Previous Plan, awards could be paid in the form of cash, restricted shares of common stock, or a combination of both. The 2000 Plan allows the Company to continue to grant long-term performance-based awards similar to those that could be paid under the Previous Plan, and also authorizes a broad range of other awards, including options, reload options, deferred stock, performance awards, stock appreciation rights and other stock-based awards, as well as cash-based awards. Up to 4,276,551 shares of common stock may be issued under the 2000 Plan, of which 3,434,935 shares were available to be granted at December 31, 2000.

Stock Options

On May 4, 2000 the Board of Directors approved the issuance of non-qualified stock options to executives and other key associates as permitted under the 2000 Plan. Under this plan the options generally are granted at prices not less than the market value of the stock at the date of grant, become exercisable ratably over a three-year period beginning one-year from the date of grant, and expire ten years from the date of grant. The options immediately vest in the event of a change in control. The Company applies the intrinsic value-based methodology in accounting for stock options. Accordingly, no compensation expense has been recognized for stock option awards. Had compensation cost for stock option awards under the 2000 Plan been determined by using the fair value at the grant date, the Company's net income, basic and diluted earnings per share would have been $158,996, $1.58 and $1.58, respectively, for the year ended December 31, 2000. The foregoing impact of compensation cost was determined using a modified Black-Scholes methodology and the following assumptions:

Risk-Free Interest Rate	Weighted Average Expected Life	Expected Volatility	Expected Dividend Yield	Fair Value at Grant Date
6.58%	7 years	28.70%	3.99%	$22.58

Option activity was as follows for the year ended December 31, 2000:

	Options to Purchase Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2000	—	—
Granted	809,806	$22.58
Exercised	—	—
Cancelled	(28,175)	(22.56)
Outstanding at December 31, 2000	781,631	$22.58

In 2000, a total of 195,706 options were granted under the Company's long-term incentive program for the three-year performance cycle beginning on January 1, 2000. Also in 2000, all of the participants in the long-term incentive program's three-year performance cycles beginning on January 1, 1998 and 1999 accepted the opportunity to relinquish their participation in those cycles in exchange for a total of 614,100 options. There were 19,975 exercisable at December 31, 2000.

Restricted Stock

Under the 2000 Plan and the Previous Plan, designated executives and other key associates are eligible to receive restricted stock awards if performance cycle goals based on earnings-per-share growth and total return to Company shareholders in comparison to a designated peer group of companies are met. The fair value of the restricted stock is being charged to expense over each three-year performance cycle. The Company awarded 19,796 shares with a value of $380 in 2000, 30,788 shares with a value of $893 in 1999, and 70,450 shares with a value of $2,069 in 1998. The market value of the common stock expected to be awarded has been recorded as unearned compensation and is shown as a separate component of common stockholders' equity.

Note 10: General Taxes

Components of general tax expense for the years presented in the consolidated statement of income and comprehensive income are as follows:

	2000	1999	1998
Gross receipts and franchise	**$ 43,425**	$ 41,839	$ 40,014
Property and capital stock	**55,680**	53,458	53,705
Payroll	**16,243**	18,445	16,911
Other general	**9,871**	8,932	7,502
	$125,219	$122,674	$118,132

Note 11: Income Taxes

Components of income tax expense for the years presented in the consolidated statement of income and comprehensive income are as follows:

	2000	1999	1998
State Income Taxes:			
Current	**$ 14,265**	$10,483	$10,517
Deferred			
Current	**30**	199	(24)
Non-current	**3,158**	3,600	3,082
	$ 17,453	$14,282	$13,575
Federal Income Taxes:			
Current	**$ 63,545**	$47,858	$54,961
Deferred			
Current	**35**	1,449	172
Non-current	**25,826**	29,248	28,277
Amortization of deferred investment tax credits	**(1,553)**	(1,437)	(1,437)
	$ 87,853	$77,118	$81,973

A reconciliation of income tax expense at the statutory federal income tax rate to actual income tax expense is as follows:

	2000	1999	1998
Income tax at statutory rate	**$ 93,228**	$80.622	$86,095
Increases (decreases) resulting from –			
State taxes, net of federal taxes	**11,345**	9,283	8,824
Flow through differences	**1,736**	1,708	1,311
Amortization of investment tax credits	**(1,553)**	(1.437)	(1,437)
Subsidiary preferred dividends	**1,088**	1,144	1,177
Other, net	**(538)**	80	(422)
Actual income tax expense	**$105,306**	$91.400	$95,548

The following table provides the components of the net deferred tax liability at December 31:

	2000	1999
Deferred Tax Assets		
Advances and contributions	**$197,390**	$185,424
Deferred investment tax credits	**16,324**	16,731
Other	**31,932**	32,637
	245,646	234,792
Deferred Tax Liabilities		
Utility plant, principally due to depreciation	**700,627**	647,964
Income taxes recoverable through rates	**93,307**	93,167
Other comprehensive income	**16,180**	62,574
Other	**40,875**	41,547
	850,989	845,252
	$605,343	$610,460

No material valuation allowances were required on deferred tax assets at December 31, 2000 and 1999.

Note 12: Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $16.532 for 2000, $15,192 for 1999 and $13,037 for 1998. Capital leases currently in effect are not significant.

At December 31. 2000, the minimum annual future rental commitment under operating leases that have initial or remaining noncancellable lease terms in excess of one year are $9,735 in 2001, $8.052 in 2002, $5,633 in 2003, $3,537 in 2004, $2,304 in 2005 and $8.245 thereafter.

Note 13: Revolving Credit Agreements

On June 26. 2000 the American Water Works Company announced the formation of a new wholly owned subsidiary, American Water Capital Corp., a special purpose corporation that will serve as the primary funding vehicle for American Water Works and its utility subsidiaries. American Water Works has fully and unconditionally guaranteed the securities of American Water Capital.

Notes to Financial Statements

(Dollars in thousands, except per share amounts)

American Water Capital has a 364-day $600,000 revolving credit agreement with a group of 12 domestic and international banks. The initial renewal date for this facility is June 29, 2001. Borrowing under the revolving credit line, at the Company's option, bears interest at a rate based upon either a defined base rate or the London Interbank Offered Rate (LIBOR). The Company pays a commitment fee of 10 basis points on the entire amount of the commitment (whether borrowed or not borrowed) and a usage fee of 32.5 basis points (42.5 basis points if borrowings exceed $200,000). These fees may fluctuate based upon the Company's current bond rating. Under the credit agreement, the Company must maintain certain financial ratios and meet certain balance sheet tests. No compensating balances are required under the agreement.

During 2000 the Company and its subsidiaries also maintained lines of credit with various banks, most of which were replaced by American Water Capital's credit agreement. Borrowings under such lines of credit generally are payable on demand and bear interest at variable rates. Agreements with lending banks generally do not have compensating balance requirements.

At December 31, 2000 and 1999, there were $412,179 and $239,864 of short-term bank borrowings outstanding, respectively. The weighted average annual interest rate on these borrowings was 7.02% and 5.37%, respectively.

At December 31, 2000, American Water Capital had $170,367 outstanding under commercial paper borrowings, all of which was classified as short-term debt. American Water Capital's revolving credit agreement supports these borrowings. Commercial paper borrowings at December 31, 2000 had a weighted-average interest rate of 7.31%.

The total of the unused lines of credit and commercial paper borrowings at December 31, 2000 was $218,821.

Note 14: Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Current assets and current liabilities: The carrying amount reported in the balance sheet for current assets and current liabilities, including revolving credit debt due to the short-term maturities and variable interest rates, approximates their fair values.

Preferred stocks with mandatory redemption requirements and long-term debt: The fair values of the Company's preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on the Company's current incremental financing rates for similar types of securities.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

2000	**Carrying Amount**	**Fair Value**
Preferred stocks of subsidiaries with mandatory redemption requirements	$32,902	$34,395
Long-term debt of the Company	211,000	211,211
Long-term debt of subsidiaries	2,218,644	2,267,171

1999	**Carrying Amount**	**Fair Value**
Preferred stocks of the Company with mandatory redemption requirements	$40,000	$40,668
Preferred stocks of subsidiaries with mandatory redemption requirements	34,020	33,959
Long-term debt of the Company	211,000	205,793
Long-term debt of subsidiaries	2,217,112	2,126,890

Note 15: Commitments and Contingencies

Construction programs of subsidiaries for 2001 are estimated to cost approximately $410,000. Commitments have been made in connection with certain construction programs.

The Company is routinely involved in condemnation proceedings and legal actions relating to several utility subsidiaries. In the opinion of management, none of these matters will have a material adverse effect, if any, on the financial position or results of operations of the Company.

Note 16: Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 2000 and 1999 are as follows:

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$307,759	$346,409	$364,125	$332,297
Operating income	90,448	120,011	136,135	109,584
Net income	27,083	45,139	50,731	38,108
Net income to common stock	26,087	44,143	49,735	37,396
Net income per common share	$ .27	$ .45	$ .51	$ .38

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating revenues	$277,416	$318,975	$353,578	$310,888
Operating income	74,928	111,298	136,343	97,025
Net income	20,422	33,122	52,847	32,558
Net income to common stock	19,426	32,126	51,851	31,562
Net income per common share	$ .20	$ .33	$ .54	$ .33

Historical Review

(Dollars in thousands, except per share and per customer amounts)

For the years ended December 31,	**2000**	1999	1998	1997
Revenues				
Water service				
Residential	**$ 759,697**	$ 733,956	$ 691,279	$ 658,955
Commercial	**278,463**	262,940	249,564	235,561
Industrial	**82,406**	77,953	78,092	73,596
Public and other	**153,302**	149,531	146,299	137,289
Other water revenues	**11,859**	11,997	13,983	11,064
	1,285,727	1,236,377	1,179,217	1,116,465
Wastewater service	**24,389**	24,480	20,820	14,909
Management fees	**40,474**	—	—	—
Total revenues	**$ 1,350,590**	$ 1,260,857	$ 1,200,037	$ 1,131,374
Water sales (million gallons)				
Residential	**171,548**	175,487	168,617	169,307
Commercial	**82,455**	81,857	79,115	78,542
Industrial	**46,348**	45,862	46,361	46,088
Public and other	**40,784**	41,477	40,110	39,831
Total water sales (million gallons)	**341,135**	344,683	334,203	333,768
Total water customers served (thousands)	**2,541**	2,476	2,446	2,400
Total wastewater customers served (thousands)	**40**	40	39	25
Annual water sales per customer (thousand gallons)	**134**	139	137	139
Annual water revenue per customer (whole dollars)	**$ 506**	$ 499	$ 482	$ 465
Net income to common stock*	**$ 157,361**	$ 147,870	$ 146,807	$ 133,707
Earnings per common share on average shares outstanding*	**$ 1.61**	$ 1.53	$ 1.54	$ 1.42
Common dividends per share	**$ .90**	$ .86	$ .82	$ .76
Payout ratio*	**56%**	56%	53%	54%
Total capitalization at year-end				
Long-term debt (including current portion)	**$ 2,432,560**	$ 2,431,452	$ 2,385,950	$ 2,129,228
Preferred stocks	**52,693**	93,811	97,089	97,663
Common equity	**1,669,677**	1,634,798	1,481,611	1,341,946
Total capital (excluding short-term debt)	**$ 4,154,930**	$ 4,160,061	$ 3,964,650	$ 3,568,837
Common equity – book value per share at year-end	**$ 16.92**	$ 16.82	$ 15.46	$ 14.18
Common equity – market value per share at year-end	**$ 29.38**	$ 21.25	$ 33.75	$ 27.31
Market to book ratio at year-end	**174%**	126%	218%	193%
Rate of return on beginning common equity*	**9.8%**	10.0%	10.9%	10.8%
Coverage ratios				
On long-term debt interest before income taxes	**2.6**	2.4	2.5	2.5
On total interest before income taxes	**2.3**	2.3	2.4	2.3
On total fixed charges (including preferred dividends) after income taxes	**1.7**	1.7	1.8	1.7
Total assets	**$ 6,134,798**	$ 5,952,206	$ 5,458,658	$ 4,992,023
Utility plant	**$ 6,479,219**	$ 6,091,983	$ 5,664,349	$ 5,199,809
Less-accumulated depreciation	**1,276,386**	1,152,575	1,051,322	940,543
Net utility plant	**$ 5,202,833**	$ 4,939,408	$ 4,613,027	$ 4,259,266
Construction expenditures	**$ 377,217**	$ 467,351	$ 439,217	$ 394,429
Net plant per customer (whole dollars)	**$ 2,016**	$ 1,963	$ 1,856	$ 1,756

*Excludes one-time after tax merger costs of $12,905 ($.13 per share) in 1999, and $352 in 1998.

1996	1995	1994	1993	1992	1991	1990
$ 617,846	$ 554,448	$ 529,633	$ 485,060	$ 449,109	$ 430,631	$ 387,049
224,354	201,711	193,744	180,147	169,822	164,408	149,022
72,101	64,310	62,501	58,725	55,524	55,013	52,291
122,951	113,147	109,761	101,353	95,947	92,736	84,018
9,868	9,131	9,855	7,647	5,705	6,413	5,191
1,047,120	942,747	905,494	832,932	776,107	749,201	677,571
15,378	14,953	13,933	12,143	11,391	10,427	10,157
—	8,042	5,564	5,213	5,126	5,914	5,350
$ 1,062,498	$ 965,742	$ 924,991	$ 850,288	$ 792,624	$ 765,542	$ 693,078
164,700	161,552	159,140	146,360	142,553	145,005	139,810
77,319	75,678	74,632	70,334	69,069	70,912	68,995
46,009	44,248	45,189	43,295	42,874	43,963	45,969
36,152	35,653	35,226	32,384	32,098	34,322	31,830
324,180	317,131	314,187	292,373	286,594	294,202	286,604
2,380	2,210	2,192	2,163	2,023	2,000	1,982
24	24	19	18	18	18	18
136	143	143	135	142	147	145
$ 440	$ 427	$ 413	$ 385	$ 384	$ 375	$ 342
$ 112,836	$ 104,739	$ 90,653	$ 80,807	$ 78,709	$ 86,600	$ 68,973
$ 1.26	$ 1.29	$ 1.15	$ 1.05	$ 1.02	$ 1.13	$ .91
$ .70	$ .64	$ .54	$ .50	$ .46	$ .43	$ .40
56%	50%	47%	48%	45%	38%	44%
$ 2,006,966	$ 1,642,453	$ 1,591,119	$ 1,402,798	$ 1,235,820	$ 1,154,792	$ 990,803
99,012	100,287	101,698	104,490	109,529	106,770	48,122
1,241,167	992,240	895,031	805,660	755,262	706,098	646,764
$ 3,347,145	$ 2,734,980	$ 2,587,848	$ 2,312,948	$ 2,100,611	$ 1,967,660	$ 1,685,689
$ 13.29	$ 11.99	$ 11.15	$ 10.41	$ 9.81	$ 9.23	$ 8.49
$ 20.63	$ 19.44	$ 13.50	$ 15.00	$ 13.69	$ 13.25	$ 8.00
155%	162%	121%	144%	140%	144%	94%
11.4%	11.7%	11.3%	10.7%	11.1%	13.4%	11.4%
2.4	2.3	2.3	2.3	2.2	2.3	2.2
2.2	2.1	2.2	2.2	2.1	2.2	2.0
1.6	1.5	1.6	1.6	1.6	1.7	1.6
$ 4,682,097	$ 4,016,353	$ 3,758,454	$ 3,508,783	$ 2,911,315	$ 2,690,968	$ 2,507,255
$ 4,829,053	$ 4,129,955	$ 3,805,093	$ 3,517,584	$ 3,121,026	$ 2,901,498	$ 2,707,813
851,446	744,914	677,890	616,053	532,765	489,676	453,555
$ 3,977,607	$3,385,041	$ 3,127,203	$ 2,901,531	$ 2,588,261	$ 2,411,822	$ 2,254,258
$ 313,814	$ 364,560	$ 300,772	$ 231,398	$ 237,214	$ 215,575	$ 233,120
$ 1,655	$ 1,515	$ 1,414	$ 1,330	$ 1,268	$ 1,195	$ 1,127

Achievements
of the Decade 1991 – 2000

- Increased the market value of the investment by common stockholders from $490 million to $2.9 billion
- Celebrated our 50th anniversary as a publicly-traded corporation
- Increased the dividend to common stockholders for the 25th consecutive year
- Qualified for inclusion in the S&P 400 Midcap Index
- Completed the first public offering of new common shares since 1955
- Consummated over 100 acquisitions that strengthened our geographic diversity and added more than one million customers
- Invested more than $ 3 billion in essential water and wastewater facilities
- Provided reliable water and wastewater service day and night, rain or shine through droughts, earthquakes, historic floods, blizzards and fires

All this and more – to honor our commitment to associates, customers and shareholders

Company Information

Dividend Reinvestment and Stock Purchase Through the Company's Dividend Reinvestment and Stock Purchase Plan, shareholders of American Water Works Company, Inc., can automatically reinvest all or part of their dividends in American Water Works Company common stock and purchase additional shares of Company common stock at the prevailing market price, less a 2% discount. Customers of American Water Works Company's *utility subsidiaries may buy the initial shares of common stock* required to participate in the plan directly from the Company. For more information or an application for participation, contact Fleet National Bank, c/o EquiServe, P.O. Box 43010, Providence, RI 02940-3010 or telephone (877) 987-9757 (877-WTR-WRKS) or (781) 575-3100.

Shareholder Information Inquiries regarding shareholder stock ownership, dividends or transfer/reissuance of shares can be addressed to our Transfer Agent, Fleet National Bank, c/o EquiServe, P.O. Box 43010, Providence, RI 02940-3010 or telephone (877) 987-9757 (877-WTR-WRKS) or (781) 575-3100. Transfer requests sent by mail should provide the appropriate instructions. Other shareholder inquiries should be directed to W. Timothy Pohl, Esq., General Counsel and Secretary, P.O. Box 1770, Voorhees, NJ 08043, telephone (856) 346-8200.

Investor Relations Investors desiring information about the Company can contact James E. Harrison, Vice President Investor Relations, P.O. Box 1770, Voorhees, NJ 08043, telephone (856) 346-8200. Additional information and news releases can be found on the Company's website (www.amwater.com).

Annual Meeting The 2001 Annual Meeting of American Water Works Company shareholders will be held on Thursday, May 3, 2001 at 10 a.m. at The Mansion on Main Street, Kresson and Evesham Roads, Voorhees, NJ.

Range of Market Prices AWK is the trading symbol of American Water Works Company, Inc. on the New York Stock Exchange on which the Common Stock, 5% Preferred Stock and 5% Preference Stock of the Company are traded.

Newspaper listing	Common Stock AmWtrWks		5% Preferred Stock A Wat pr		5% Preference Stock A Wat pf	
2000	High	Low	High	Low	High	Low
1st quarter	$24 1/2	$18 15/16	$18	$17	$18 3/4	$16
2nd quarter	25 3/4	21 1/8	19 1/2	17	20 1/2	17
3rd quarter	27 7/8	23 3/4	19 1/2	17 1/2	19 1/2	17 3/4
4th quarter	29 3/8	23 5/16	19 1/2	18	19 1/2	17 3/4
Quarterly dividend paid per share	$.225		$.3125		$.3125	
Number of shareholders at December 31, 2000	41,391		172		590	

1999	High	Low	High	Low	High	Low
1st quarter	$34 3/4	$28 1/4	$24	$20	$23 1/2	$21
2nd quarter	31 7/16	27 1/2	22 1/2	20 1/2	22 1/2	19
3rd quarter	31 7/16	28 1/8	21 1/2	18 1/2	21 1/4	19 5/16
4th quarter	30	20 1/2	21 1/2	17 1/4	21	17 1/4
Quarterly dividend paid per share	$.215		$.3125		$.3125	
Number of shareholders at December 31, 1999	43,577		198		645	

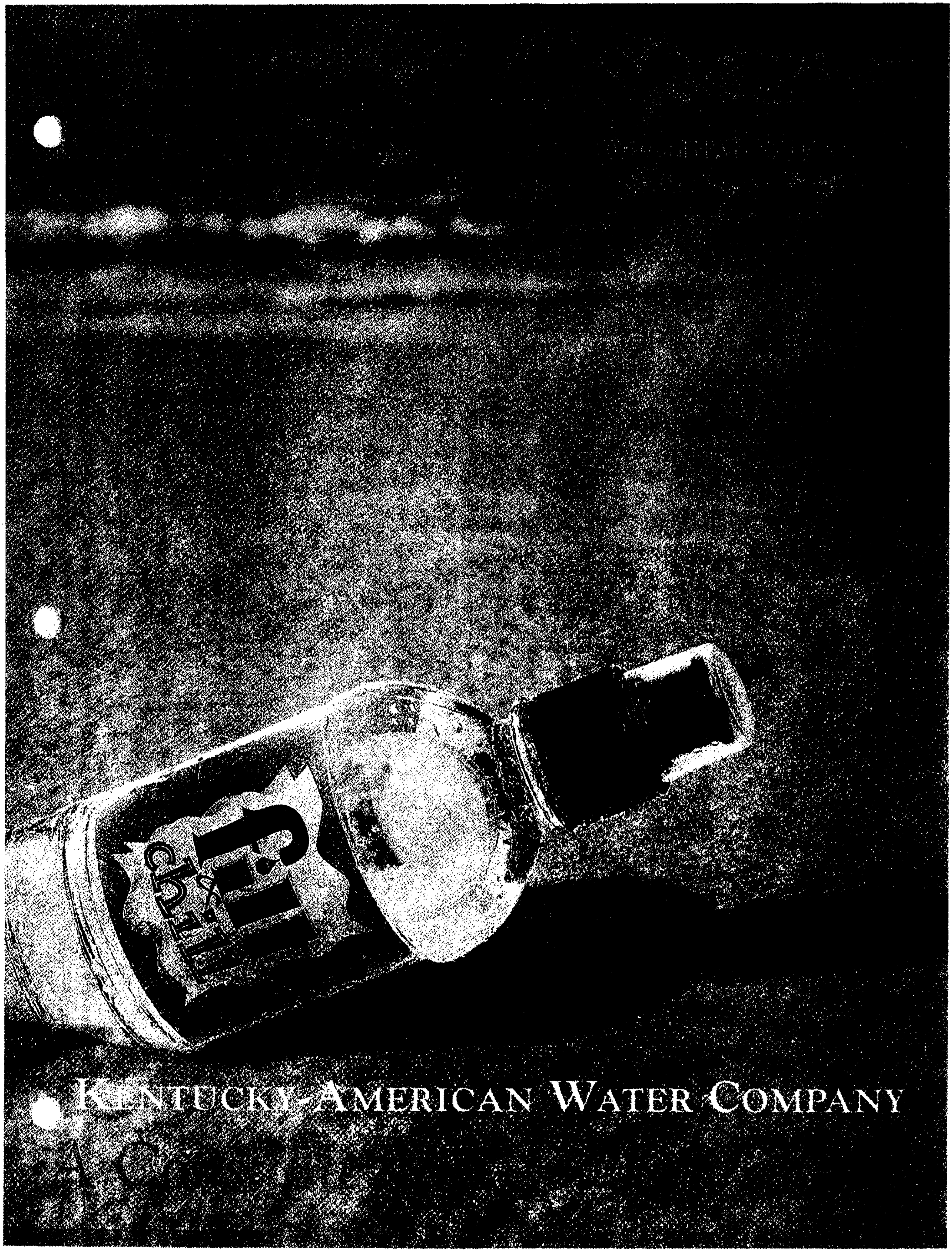
The common and 5% preferred stocks have voting rights.

Options Trading Options for Company stock (AWK) are traded on the Philadelphia Stock Exchange (Newspaper listing: PB).

Design/Production: The Creative Department, Inc.
Copywriting: Gerard L. Reimel
Photography: R. Mark Weidman, cover, editorial section; Mimi Janosy, Ed Eckstein portraits

American Water Works Company, Inc.

1025 LAUREL OAK RD., P.O. BOX 1770, VOORHEES, NEW JERSEY, 08043, (856) 346-8200


KENTUCKY-AMERICAN WATER COMPANY

OUR MISSION

Continually build ever-increasing value for our shareholders and our customers in the business of water resource management.

OUR VISION

Be the water resource manager of choice throughout the United States; By providing unsurpassed water, wastewater and other water resource management services and products to customers, communities and industry; So as to protect public health and safety, enhance the quality of life, and promote economic prosperity.

STRATEGIES

Own, acquire and invest in regulated water and wastewater utilities that demonstrate the ability to consistently earn rates of return that exceed the cost of capital investment.

Deliver profitable water, wastewater and other water resource management services to communities and industries.

Deliver water, wastewater and water resource products and facilities needed or desired by customers, communities and industries in a manner that enhances shareholder value.

OUR VALUES

We believe in, and will not compromise

Our integrity

Our respect for our customers, associates and investors

Our commitment to the [illegible] of the water services and products we deliver and the environment in which we live

The role of private enterprise in the management of the water resources of this nation.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholder of
Kentucky-American Water Company

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings, of cash flows, of capitalization and of common stockholder's equity, present fairly, in all material respects, the financial position of Kentucky-American Water Company (a wholly-owned subsidiary of American Water Works Company, Inc.) at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

January 29, 2001
Philadelphia, Pennsylvania

KENTUCKY-AMERICAN WATER COMPANY
An American Water Works Company
2300 Richmond Road
Lexington, Kentucky 40502

FINANCIAL STATEMENTS

KENTUCKY-AMERICAN WATER COMPANY - BALANCE SHEET (DOLLARS IN THOUSANDS)

ASSETS

	December 31, 2000	December 31, 1999
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	$ 189,424	$ 183,732
Utility plant acquisition adjustments, net	138	185
	189,562	183,917
Nonutility property	250	250
Current assets		
Cash and cash equivalents	803	508
Customer accounts receivable	1,768	1,415
Allowance for uncollectible accounts	(56)	(50)
Prepaid Tax	641	165
Unbilled revenues	2,085	1,902
Miscellaneous receivables	356	828
Materials and supplies	431	524
Other	321	328
	6,349	5,620
Regulatory and other long-term assets		
Regulatory asset - income taxes recoverable through rates	4,405	4,222
Deferred programmed maintenance	3,340	3,133
Preliminary survey and investigation	343	4,154
Debt and preferred stock expense	835	414
Other	5,856	2,055
	14,779	13,978
	$ 210,940	$ 203,765

KENTUCKY-AMERICAN WATER COMPANY - BALANCE SHEET (DOLLARS IN THOUSANDS)

CAPITALIZATION AND LIABILITIES

	December 31, 2000	1999
Capitalization		
Common stock	$ 36,569	$ 36,569
Paid-in-capital	21	21
Retained earnings	22,730	21,686
Total common stockholder's equity	59,320	58,276
Preferred stock without mandatory redemption requirements	1,570	1,570
Preferred stock with mandatory redemption requirements	5,420	5,468
Long-term debt	42,000	63,000
Total capitalization	108,310	128,314
Current liabilities		
Notes Payable to Affiliated Company	20,830	5,716
Current portion of long-term debt	13,000	4,000
Accounts payable	1,762	1,240
Taxes accrued	242	340
Interest accrued	688	832
Wages and benefits accrued	473	352
Tax collection payable	256	236
Other	421	2,633
	37,672	15,349
Regulatory and other long-term liabilities		
Customer advances for construction	9,795	9,679
Deferred income taxes	27,271	23,594
Deferred investment tax credits	1,811	1,896
Accrued pension expense	977	1,472
Accrued postretirement benefits expense	299	299
Other	595	457
	40,748	37,397
Contributions in aid of construction	24,210	22,705
	$ 210,940	$ 203,765

The accompanying notes are an integral part of these financial statements.