July 10, 2006

CERTAIN MATTERS RELATING TO PUBLIC COMPANIES

Upon the effectiveness of the Form S-1 Registration Statement (the "Registration Statement") registering the common stock of American Water Works Company, Inc. (referred to sometimes herein as the "Company") under the Securities Act of 1933, as amended, the Company will become a "public company", and thus subject to the reporting and other requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, upon the listing of the Company's common stock on the New York Stock Exchange (the "NYSE"), the Company will be subject to the reporting and corporate governance standards contained in the NYSE listed company manual. Certain issues related to the Company going "public" are briefly summarized below.

I. Reporting Requirements of Section 13 of the Exchange Act

Once the Company goes "public", it is subject to the U.S. Securities and Exchange Commission's (the "SEC") continuing reporting requirements of Section 13 of the Exchange Act and the regulations promulgated thereunder. Also note, that the NYSE listed company manual requires certain reports and filings upon the occurrence of certain events. Certain Exchange Act reports are as follows:

A. Annual Reports on Form 10-K

An annual report on Form 10-K is a comprehensive report, requiring updated disclosure with respect to much of the information that the Company will present in its Registration Statement. Some of the required disclosure includes the following:

- a description of the business, properties and legal proceedings;
- MD&A covering the three latest fiscal years;
- audited financial statements for the three latest fiscal years;
- selected financial data for the five latest fiscal years;
- information about industry segments, classes of similar products and services and foreign and domestic operations;
- quantitative and qualitative disclosure about market risks;
- information about market prices of and dividends on the Company's common equity;

- information about directors, executive officers and executive compensation; and

- detailed information about equity compensation plans.

Within 90 days of the end of the Company's first fiscal year following the effectiveness of the Registration Statement, the Company must file the annual report. Assuming the Company will be considered a "large accelerated filer"[1], all subsequent annual reports on Form 10-K must be filed within 60 days of its fiscal year-end.

B. Quarterly Reports on Form 10-Q

For the first three quarters of each fiscal year, the Company must file quarterly reports on Form 10-Q comprised of condensed, unaudited financial information for the quarter and fiscal year to date, with comparative information for the corresponding periods of the prior fiscal year, and an MD&A covering these periods. Quarterly financial statements are reviewed by independent public accountants, but not audited.

After the Registration Statement becomes effective, the filing deadline will be 45 days after the end of the fiscal quarter. Once the Company is a large accelerated filer, the filing deadline will be 40 days after the end of the fiscal quarter.

C. Current Reports on Form 8-K

Certain specified events trigger an obligation by a public company to file a current report on Form 8-K. In 2004, the SEC significantly increased the number of reportable events. The general category of reportable events is as follows:

- entry into or termination of a material definitive agreement;

- bankruptcy or receivership;

- acquisition or disposition of assets;

- public announcements regarding results of operations and financial condition ("earnings releases");

- creation of a direct financial obligation or an obligation under an off-balance sheet arrangement;

[1] A "large accelerated filer" is a reporting company that has a common equity public float of more than $700 million, has filed at least one annual report and has been a reporting company for 12 months.

- material costs associated with exit or disposal activities;

- material impairments;
- notice of delisting or failure to satisfy a listing condition;
- unregistered sales of equity securities;
- material modifications to rights of security holders;
- changes in certifying accountant;
- non-reliance on previously issued financial statements;
- changes in control;
- departures of directors or principal officers, elections of directors or appointment of principal officers;
- amendments to organizational documents;
- changes in fiscal year;
- suspension of trading under employee benefit plans;
- amendments to code of ethics or waiver of a provision of code of ethics; and
- regulation FD disclosure.

With the exception of the triggering events relating to earnings releases (date of reporting can vary), Regulation FD disclosure (timing discussed in Section IV below) and optional "other events" reports, all reportable events need to be disclosed on a Form 8-K within four business days from the date of the reportable event.

II. Proxy Rules of Section 14 of the Exchange Act

As a Delaware corporation, the Company will be required under Delaware law to hold an annual meeting of its stockholders. Section 14 of the Exchange Act and the rules promulgated thereunder require that a proxy statement and annual report to stockholders be distributed with or before the solicitation of proxies for the annual meeting.

Under Section 14, the proxy statement must describe the matters to be voted on and provide certain additional materials, including detailed disclosure regarding the Company's compensation of directors and executive officers. Under certain circumstances, the Company must include stockholder proposals in its proxy materials.

A proxy statement may be subject to SEC review, depending on the items up for vote. The NYSE rules require the Company to file preliminary materials with the NYSE under certain circumstances (such as the creation of new classes of listed securities).

III. Requirements of Section 16 of the Exchange Act

Under Section 16 of the Exchange Act, a public company's directors, officers and principal stockholders (collectively referred to herein as "insiders") are required to (i) report their ownership and trading of shares in the public company, (ii) disgorge "short-swing profits" from trading in such shares and (iii) refrain from making short sales of such shares. Section 16 of the Exchange Act and the regulations and forms promulgated thereunder contain strict, detailed and nuanced rules. Persons violating Section 16 may be subject to criminal penalties in addition to civil penalties of up to $100,000 for each violation (or any greater amount of the gain resulting from the violation). Thus, advice from legal counsel is critical (i) when analyzing all Section 16 issues and (ii) implementing a compliance regime by the Company and its stockholders.

Section 16(a) of the Exchange Act requires that each insider file reports with the SEC of his, her or its beneficial ownership of shares. The rules for determining who precisely qualifies as an insider and what precisely constitutes "beneficial ownership" is detailed and nuanced. For example, beneficial ownership may extend to securities held indirectly through partnerships, trusts and estates as well as securities owned by close relatives of the Section 16 insider.

Section 16(b) of the Exchange Act requires the Company to recover any profit realized by an insider through the purchase and sale or sale and purchase of the Company's equity securities in a period of less than six months. Note that the securities purchased and sold need not be of the same class. For instance, a purchase of common stock less than six months after the disposition of an option based on common stock will result in Section 16(b) liability. Profits are determined by matching the highest sale price during the period with the lowest purchase price and are recoverable regardless of whether the insider realized an actual profit or sustained a net loss for the six month period. If the Company decides not to bring an action to recover the profits, any Company stockholder may bring the suit on the Company's behalf. These profits are recoverable whether or not the insider misused inside information. The Company cannot waive its right to receive short-swing profits.

IV. Reports By 5% Holders

A. Schedule 13D

Pursuant to Section 13(d) of the Exchange Act and the related SEC rules, any person who after acquiring beneficial ownership of a company's shares is the beneficial owner of more than 5% of a class of the company's stock registered under the Exchange Act is required to send to the company and to file publicly with SEC within ten days after the acquisition a statement containing the information required by the Schedule 13D. "Beneficial owner" is broadly defined as any person who has or shares, directly or indirectly, voting or investment power with respect to a security, whether through contract, arrangement, understanding, relationship or otherwise. Any security as to which beneficial ownership may be acquired through the exercise of an option or other right within 60 days is also deemed to be beneficially owned. The filing requirement of Section 13(d) also applies to any group of persons who agree to act together for the purpose of holding, voting or disposing of equity securities of the issuer.

Schedule 13D requires a statement of facts relating to the stock and the holdings of the reporting person, the source of funds for the acquisition, any plans that the reporting person has regarding the company (such as an intention to control the issuer) and any understandings with others with respect to securities of the company. Schedule 13D filings should be amended promptly to reflect any material change in the information reported. Acquisitions or dispositions involving 1% or more of the outstanding class of securities are deemed material.

The Section 13(d) reporting requirement does not apply to acquisitions made before the issuer becomes a public company, as long as acquisitions made after the issuer goes public do not exceed a 2% limit. Persons who beneficially own more than 5% but are not required to file because their acquisitions were made in the pre-public period are required to file a Schedule 13G.

B. Schedule 13G

Institutional investors, such as broker-dealers, banks, insurance companies and investment companies and advisors, who cross the 5% threshold but who acquire the securities in the ordinary course of business and do not intend to exercise control over the issuer, are not required to file a Schedule 13D within ten days of the acquisition. Rather, these holders may file a "short-form" statement on Schedule 13G within 45 days after the end of the calendar year in which the acquisition occurs.

V. SEC Regulation FD

The SEC's Regulation FD restricts publicly-traded companies from selectively disclosing material non-public information. This regulation provides that when an

issuer, or a person acting on its behalf, discloses material non-public information to securities industry professionals or to a security holder who is likely to trade based on the information, the issuer must make public disclosure of that information. The public disclosure must be made simultaneously (for an intentional selective disclosure) or promptly (for a non-intentional disclosure). "Promptly" is defined to mean "as soon as reasonably practicable" (but no later than 24 hours) after a senior official of the issuer learns of the disclosure and knows, or is reckless in not knowing, that the information disclosed was both material and non-public.

The regulation covers only communications made by the issuer's senior management, its investor relations professionals, and others who regularly communicate with securities market professionals and security holders. The regulation does not apply to communications with the press, rating agencies, and ordinary-course business communications with customers and suppliers, and expressly excludes communications made in connection with most securities offerings registered under the Securities Act of 1933. Nevertheless, the Company should avoid selective disclosure of material information, even if it would not fall within Regulation FD.

Regulation FD is still evolving area. Enforcement actions under the regulation have only recently begun. The best way for the Company to protect itself from potential violations of Regulation FD is to establish a written policy regarding any communications with the press, securities professionals or investors.

VI. Resale of Stock Considerations

If the Company files a registration statement on Form S-8 covering shares issued under the Company's stock incentive plan, those shares will be freely tradable, except as otherwise provided under such plan and applicable lock-up periods. The holders of other shares of Company common stock issued prior to the initial public offering (e.g., RWE) will not be able to sell those shares on the public market without registration, unless the transaction meets an exception to the registration requirement.

SEC Rule 144 offers the only plausible way that insiders of the Company can sell common stock into the public markets without registration. A person who complies with the terms and conditions of Rule 144 may sell restricted or non-restricted securities in the public market without registration.

In general, under Rule 144, a person, including an affiliate[2], who has beneficially owned shares of common stock for at least one year, is entitled to sell within any three-month period, a number of shares that does not exceed the greater of:

[2] An "affiliate" is someone (such as an officer or director) who directly or indirectly controls the company.

- 1% of the then outstanding shares of common stock; and

- the average weekly trading volume on the NYSE during the four calendar weeks preceding each such sale, subject to restrictions.

Sales under Rule 144 are also subject to manner of sale provisions, notice requirements and availability of current public information about the Company.