COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN	)	
WATER COMPANY, THAMES WATER AQUA	)	
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT,	)	
THAMES WATER AQUA US HOLDINGS, INC.,	)	**CASE NO. 2006-00197**
AND AMERICAN WATER WORKS COMPANY,	)	
INC. FOR APPROVAL OF A CHANGE IN CONTROL	)	
OF KENTUCKY-AMERICAN WATER COMPANY	)	

SUPPLEMENTAL RESPONSE TO HEARING DATA REQUESTS

Item No. 4

4. Provide the 2005 annual report of American Water Works Company, Inc. when it is finalized.

SUPPLENTAL RESPONSE:

Please see attached.

American Water Works Company, Inc.
and Subsidiary Companies

(a Subsidiary of Thames Water Aqua US Holdings, Inc)

Consolidated Financial Statements

As of and for the Years Ended December 31, 2005 and 2004

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Report of Independent Auditors

To the Board of Directors and Shareholder:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in shareholder's equity and comprehensive income, capitalization and cash flows present fairly, in all material respects, the financial position of American Water Works Company, Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their 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. Those standards 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.

As discussed in Note 3 to the consolidated financial statements, the 2004 consolidated financial statements have been restated.

PricewaterhouseCoopers LLP

August 31, 2006

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets
December 31, 2005 and 2004
(Dollars in thousands)

ASSETS

	2005	(Restated) 2004
Property, plant and equipment		
Utility plant - at original cost less accumulated depreciation	$ 7,238,273	$ 6,919,876
Nonutility property, net of accumulated depreciation	86,710	86,377
Total property, plant and equipment	7,324,983	7,006,253
Current assets		
Cash and cash equivalents	81,595	52,812
Restricted funds	7,497	37,880
Utility customer accounts receivable	114,747	129,068
Allowance for uncollectible accounts	(12,204)	(6,218)
Unbilled utility revenues	91,647	169,315
Other receivables, net	102,061	121,704
Materials and supplies	24,360	31,310
Receivable from affiliates	35,366	17,469
Assets of discontinued operations	-	22,501
Other	44,097	46,265
Total current assets	489,166	622,106
Regulatory and other long-term assets		
Regulatory assets	481,043	487,024
Other investments	4,252	6,845
Receivable from affiliates	486,200	18,775
Restricted funds	2,431	-
Goodwill	3,035,076	3,334,415
Other	59,247	55,414
Total regulatory and other long-term assets	4,068,249	3,902,473
TOTAL ASSETS	$ 11,882,398	$ 11,530,832

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Balance Sheets
December 31, 2005 and 2004
(Dollars in thousands)

CAPITALIZATION AND LIABILITIES

	2005	(Restated) 2004
Capitalization		
Common stockholder's equity	$ 2,609,458	$ 2,888,896
Preferred stocks without mandatory redemption requirements	1,750,000	1,750,000
Preferred stocks of subsidiaries without mandatory redemption requirements	4,571	4,651
Long-term debt		
American Water Works Company, Inc.	-	150,000
Subsidiaries	2,723,789	3,756,431
Redeemable preferred stock at redemption value	24,691	25,224
Total capitalization	7,112,509	8,575,202
Current liabilities		
Short-term debt	361,063	360,269
Current portion of long-term debt	1,642,840	45,741
Current portion of redeemable preferred stock at redemption value	533	553
Accounts payable	182,590	182,345
Taxes accrued, including federal income	75,988	37,395
Interest accrued	47,837	46,014
Liabilities of discontinued operations	-	3,906
Other	182,434	158,776
Total current liabilities	2,493,285	834,999
Regulatory and other long-term liabilities		
Advances for construction	516,146	453,641
Deferred income taxes	523,574	498,467
Deferred investment tax credits	31,516	32,633
Regulatory liability-cost of removal	152,686	138,418
Accrued pension expense	254,706	244,247
Accrued postretirement benefit expense	125,120	135,579
Other	59,951	40,332
Total regulatory and other long-term liabilities	1,663,699	1,543,317
Contributions in aid of construction	612,905	577,314
Commitments and contingencies	-	-
TOTAL CAPITALIZATION AND LIABILITIES	$ 11,882,398	$ 11,530,832

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Operations
For the Years Ended December 31, 2005 and 2004
(Dollars in thousands)

	2005	(Restated) 2004
Operating revenues	$ 2,002,820	$ 1,898,690
Operating expenses		
Operation and maintenance	1,163,922	1,095,807
Depreciation and amortization	235,342	202,230
General taxes	159,066	145,870
Gain on sales of assets	(6,276)	(8,504)
Impairment charges	323,361	165,082
Total operating expenses, net	1,875,415	1,600,485
Operating income	127,405	298,205
Other income (deductions)		
Interest	(206,401)	(185,417)
Allowance for other funds used during construction	5,719	4,249
Allowance for borrowed funds used during construction	2,382	2,178
Amortization of debt expense	(4,782)	(2,827)
Preferred dividends of subsidiaries	(227)	(410)
Other, net	5,699	6,609
Total other income (deductions)	(197,610)	(175,618)
Income (loss) from continuing operations before income taxes	(70,205)	122,587
Provision for income taxes	89,490	109,408
Income (loss) from continuing operations	(159,695)	13,179
Loss from discontinued operations, net of tax	(16,590)	(44,576)
Net loss	(176,285)	(31,397)
Dividends on preferred stock	103,250	103,106
Loss to common stock	$ (279,535)	$ (134,503)

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004
(Dollars in thousands)

	2005	(Restated) 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (176,285)	$ (31,397)
Adjustments		
Loss on sale from discontinued operations	16,350	-
Depreciation and amortization	235,342	202,230
Impairment charges	323,361	210,049
Removal costs net of salvage	32,196	32,164
Provision for deferred income taxes	25,601	98,195
Amortization of deferred investment tax credits	(1,117)	(1,409)
Provision for losses on utility accounts receivable	21,645	20,963
Allowance for other funds used during construction	(5,719)	(4,249)
Employee benefit expenses greater (less) than funding	(7,258)	(16,864)
Gain on sale of assets	(6,276)	(8,504)
Deferred regulatory costs	(11,615)	7,132
Amortization of deferred charges	24,993	16,677
Other, net	5,210	(21,835)
Changes in assets and liabilities		
Accounts receivable	18,305	(14,611)
Unbilled utility revenues	77,668	(13,904)
Taxes receivable, including federal income	-	18,822
Other current assets	9,118	(40,751)
Accounts payable	245	43,681
Taxes accrued, including federal income	38,593	28,229
Interest accrued	1,823	(2,404)
Other current liabilities	23,658	(30,104)
Net cash from operating activities	645,838	492,110
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction expenditures	(516,074)	(463,450)
Allowance for other funds used during construction	5,719	4,249
Acquisitions	(5,358)	(1,599)
Proceeds from sale of assets and securities	1,528	6,726
Proceeds from sale of discontinued operations	489	-
Removal costs from property, plant and equipment retirements	(17,928)	(12,870)
Receivable from affiliates	(485,322)	18,107
Restricted funds	27,952	(34,490)
Net cash used in investing activities	(988,994)	(483,327)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	495,238	412,550
Net borrowings (repayments) under short-term debt agreements	794	(144,180)
Advances and contributions for construction, net of refunds	49,009	40,543
Debt issuance costs	(3,177)	(4,099)
Repayment of long-term debt	(66,039)	(215,761)
Redemption of preferred stocks	(636)	(1,592)
Dividends paid	(103,250)	(103,106)
Net cash from financing activities	371,939	(15,645)
Net increase (decrease) in cash and cash equivalents	28,783	(6,862)
Cash and cash equivalents at January 1	52,812	59,674
Cash and cash equivalents at December 31	$ 81,595	$ 52,812
Cash paid during the year for:		
Interest, net of capitalized amount	$ 230,707	$ 219,685
Income taxes paid (net of refunds)	$ 30,678	$ 18,109

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Capitalization
December 31, 2005 and 2004

(Dollars in thousands, except per share amounts)

	2005	(Restated) 2004
Common Stockholder's Equity		
Common stock-$1.00 par value, 1,000 shares authorized and outstanding in 2005 and 2004	$ 1	$ 1
Paid in capital	2,999,999	2,999,999
Accumulated deficit	(391,689)	(112,154)
Accumulated other comprehensive income	1,147	1,050
	2,609,458	2,888,896
Preferred Stock Without Mandatory Redemption Requirements:		
5.9% Preferred stock-$1,000,000 par value, 1,750 shares authorized and outstanding in 2005 and 2004	1,750,000	1,750,000
	1,750,000	1,750,000
Preferred Stocks of Subsidiaries Without Mandatory Redemption Requirements:		
Dividend rate		
3.9% to less than 5%	1,720	1,720
5% to less than 6%	2,851	2,931
	4,571	4,651

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Capitalization
December 31, 2005 and 2004

(Dollars in thousands, except per share amounts)

	Current Maturities	2005	(Restated) 2004
Long-Term Debt of American Water Works Company, Inc.:			
7.02% Senior Note, due August 1, 2005	$ -	$ -	$ 2,149
4.92% Senior Note, due November 6, 2006	150,000	-	150,000
	150,000	-	152,149
Long-Term Debt of Subsidiaries:			
Interest rate			
1% to less than 2%	3,364	262,379	179,325
2% to less than 3%	133	4,700	4,609
3% to less than 4%	17	94,719	94,841
4% to less than 5%	1,458,281	314,719	1,371,577
5% to less than 6%	552	824,846	826,014
6% to less than 7%	14,042	518,435	553,181
7% to less than 8%	4,172	448,006	470,977
8% to less than 9%	3,191	91,409	101,117
9% to less than 10%	8,466	137,289	170,870
10% to less than 11%	387	25,028	25,802
	1,492,605	2,721,530	3,798,313
Capital leases	235	2,259	1,710
	1,492,840	2,723,789	3,800,023
Preferred Stocks of Subsidiaries With Mandatory Redemption Requirements:			
Dividend rate			
3.9% to less than 5%	105	1,116	1,345
5% to less than 6%	51	309	411
6% to less than 7%	36	421	493
8% to less than 9%	331	19,657	20,320
9% to less than 10%	10	3,188	3,208
	533	24,691	25,777
	$ 1,643,373	$ 7,112,509	$ 8,621,496

Maturities of long-term debt, including sinking fund requirements, during the next five years will amount to $1,642,840 in 2006, $268,312 in 2007, $174,407 in 2008, $125,005 in 2009 and $29,512 in 2010.

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

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. Maturities of preferred stock, including sinking fund payments for the five years will amount to $533 in 2006, $363 in 2007, and $194 in 2008, 2009 and 2010.

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

American Water Works Company, Inc. and Subsidiary Companies
Consolidated Statements of Changes in Stockholder's Equity and Comprehensive Income (Loss)
December 31, 2005 and 2004
(Dollars in thousands)

	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Common Stockholder's Equity	Comprehensive Income (Loss)
Balance at December 31, 2003 (Restated)	1,000	$ 1	$ 2,999,999	$ 22,349	$ 5,018	$ 3,027,367	
Net loss, as restated	-	-	-	(31,397)	-	(31,397)	$ (31,397)
Market value adjustments for investments, net of tax	-	-	-	-	(2,565)	(2,565)	(2,565)
Additional minimum pension liability,net	-	-	-	-	(30)	(30)	(30)
Foreign currency translation	-	-	-	-	(1,373)	(1,373)	(1,373)
Dividends on preferred stock	-	-	-	(103,106)	-	(103,106)	-
Total comprehensive loss, as restated							$ (35,365)
Balance at December 31, 2004 (Restated)	1,000	1	2,999,999	(112,154)	1,050	2,888,896	
Net loss	-	-	-	(176,285)	-	(176,285)	$ (176,285)
Market value adjustments for investments, net of tax	-	-	-	-	(233)	(233)	(233)
Additional minimum pension liability,net	-	-	-	-	(576)	(576)	(576)
Foreign currency translation	-	-	-	-	906	906	906
Dividends on preferred stock	-	-	-	(103,250)	-	(103,250)	-
Total comprehensive loss							$ (176,188)
Balance at December 31, 2005	1,000	$ 1	$ 2,999,999	$ (391,689)	$ 1,147	$ 2,609,458	

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

Note 1: Organization and Operation

Effective January 10, 2003, American Water Works Company, Inc. and subsidiary companies ("the Company"), was acquired by Thames Water Aqua US Holdings, Inc. ("TWAUSHI"), a wholly owned subsidiary of RWE Aktiengesellschaft ("RWE") (herein referred to as "RWE Acquisition"). American Water Works Company, Inc. (the "parent company") through its regulated and unregulated subsidiaries provides water and wastewater service in the United States of America and Canada. As public utilities, the regulated subsidiaries function under rules and regulations prescribed by state regulatory commissions. Water and wastewater management services are provided through an unregulated subsidiary, American Water Enterprises ("AWE"). In addition, American Water Resources is a wholly-owned subsidiary that provides water and sewer line protection products.

Note 2: Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the parent company and its subsidiaries. Intercompany balances and transactions between subsidiaries have been eliminated. The Company uses the equity method to report its investment in an affiliated company, American Water-Pridesa, LLC ("AW-Pridesa"), in which it holds a 50% voting interest and cannot exercise control over the operations and policies of the investment. Under the equity method, the Company records its interest in AW-Pridesa as an investment and its percentage share of AW-Pridesa's earnings as earnings or losses of investee. The Company has analyzed its variable interest in AW-Pridesa in accordance with the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" and determined the Company is not the primary beneficiary.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 regulated utility subsidiaries are subject to regulation by the public utility commissions and the local governments of the states in which they operate ("Regulators"). These Regulators have allowed recovery of costs and credits which the Company has recorded as regulatory assets and liabilities. Accounting for future recovery of 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

Note 2 (continued):

companies whose rates are established by or are subject to approval by an independent third-party regulator. Under SFAS 71, regulated 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

Property, plant and equipment consist primarily of utility plant. 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 and maintenance are charged to current operations.

When units of property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates. Removal costs, net of salvage, of $32,196 and $32,164 are recorded in operation and maintenance expense as of December 31, 2005 and 2004, respectively.

The cost of property, plant and equipment is depreciated using the straight-line average remaining life method.

Non-utility property consists primarily of buildings and equipment utilized by American Water Works Service Company, Inc. ("AWWS") which provides various services to affiliated companies and by AWE in its unregulated management services business. This property is stated at cost, net of accumulated depreciation calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to 40 years.

Cash and Cash Equivalents

Substantially all cash is invested in interest bearing accounts. All highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. There are no cash equivalents as of December 31, 2005 and 2004.

Note 2 (continued):

Restricted Funds

Restricted funds represent proceeds received from financings for the construction and capital improvement of utility facilities. The proceeds of these financings are held in escrow until the capital expenditures are incurred. Restricted funds expected to be released within 12 months subsequent to year-end are classified as current.

Utility Customer Accounts Receivable

Regulated utility customer accounts receivable represent amounts billed to water and wastewater customers on a cycle basis. Credit is extended based on the guidelines of the applicable Regulators and generally, collateral is not required.

Allowance for Uncollectible Accounts

Allowances for uncollectible accounts are maintained for estimated probable losses resulting from the inability of customers to make required payments. The Company continues to assess the adequacy of the reserves for doubtful accounts based on the financial condition of the Company's customers and other external factors that may impact collectibility. Accounts outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company writes off accounts when they become uncollectible.

Other Receivables, Net

Other receivables, net primarily consists of unregulated trade accounts receivable, net of a reserve for doubtful accounts, and accrued unbilled unregulated receivables. In determining the reserve for uncollectible unregulated accounts, the Company considers the length of time the trade accounts receivable are past due and the customer's current ability to pay their obligation. Unbilled receivables are accrued when service has been provided but has not been billed to customers.

Materials and Supplies

Materials and supplies are stated at the lower of average purchased cost and net realizable value.

Goodwill

The Company considers this to be one of the critical accounting estimates used in the preparation of the consolidated financial statements. The Company believes the current assumptions and other considerations used to value goodwill to be appropriate. However, if actual experience differs from the assumptions and considerations used in its analysis, the resulting change could have a material impact on the consolidated financial statements.

Goodwill is associated with the RWE acquisition and has been assigned to reporting units based on the fair values at the date of the acquisition. The

Note 2 (continued):

regulated utility subsidiaries have been aggregated and deemed a single reporting unit as they have similar economic characteristics. In the unregulated segment, the business is organized into eight reporting units for its unregulated services. In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), goodwill is reviewed annually, or more frequently if changes in circumstances indicate the carrying value may not be recoverable. To test for impairment, the Company utilizes discounted estimated future cash flows (and comparable public company analyses for the regulated segment) to measure fair value for each reporting unit. This calculation is highly sensitive to both the estimated future cash flows of each reporting unit and the discount rate assumed in these calculations. Annual impairment reviews are as of December 31, in conjunction with the timing of the Company's annual strategic business plan.

For the years ended December 31, 2005 and 2004, the Company determined that its goodwill was impaired and recorded impairments of $299,339 and $192,936, respectively (See Note 17.)

Impairment of Long-Lived Assets

The Company believes this to be one of the critical accounting estimates used in the preparation of its consolidated financial statements. The Company believes the current assumptions and other considerations used to evaluate the carrying value of long-lived assets to be appropriate. However, if actual experience differs from the assumptions and considerations used in its estimates, the resulting change could have a material adverse impact on the consolidated statements of operations and balance sheets.

Long-lived assets, other than goodwill which is discussed above, include land, buildings, equipment and long-term investments. Long-lived assets, other than investments, land and goodwill, are depreciated over their estimated useful lives, and are reviewed for impairment whenever changes in circumstances indicate the carrying value of the asset may not be recoverable. Such circumstances would include items such as a significant decrease in the market price of a long-lived asset, a significant adverse change in the manner the asset is being used or planned to be used or in its physical condition, or a history of operating or cash flow losses associated with the use of the asset. In addition, changes in the expected useful life of these long-lived assets may also be an impairment indicator. When such events or changes occur, the Company estimates the fair value of the asset from future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets and compares that to the carrying value of the asset. If the carrying value is greater than the fair value, an impairment loss is recorded.

The key variables that must be estimated include assumptions regarding sales volume, rates, operating costs, labor and other benefit costs, capital additions, assumed discount rates and other economic factors. These variables require significant management judgment and include inherent uncertainties since they

Note 2 (continued):

are forecasting future events. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the assets carrying value exceeds its fair value.

The long-lived assets of the regulated utility subsidiaries are grouped on a separate entity basis for impairment testing as they are integrated state-wide operations that do not have the option to curtail service and generally have uniform tariffs. A regulatory asset is charged to earnings if and when future recovery in rates of that asset is no longer probable.

Due to changes in the Company's strategic business plan, the Company performed a valuation of long-lived assets, other than investments and goodwill, as of December 31, 2005 and 2004. As a result of the impairment analyses, the Company recorded pretax charges of $24,022 and $17,113 for the years ended December 2005 and 2004, respectively. The impairments primarily resulted from lower than expected growth, slower development compared with original expectations, and a building with a carrying value that exceeded its fair value. These charges are included in impairment charges in the statements of operations. The remaining values as of December 31, 2005 and 2004 were determined to be appropriate.

The fair values of long-term investments are dependent on the financial performance and solvency of the entities in which the Company invests, as well as volatility inherent in the external markets. In assessing potential impairment for these investments, the Company considers these factors and in one case also receives annual appraisals. If such assets are considered impaired, an impairment loss is recognized equal to the amount by which the asset's carrying value exceeds its fair value. The Company determined the values of long-term investments were appropriate for the years ended December 31, 2005 and 2004.

Other Investments

Other investments primarily include investments in public equity securities, privately held companies, and the investment in AW-Pridesa (See Note 14). Under the equity method, the investment in AW-Pridesa amounted to ($335) at December 31, 2005.

Investments in publicly traded securities are classified as available for sale and are recorded in the balance sheet at fair market value using quoted market prices with the change in market value, net of tax effect, recorded as part of other comprehensive income. The cost basis of these publicly traded securities was $1,072 and $646 at December 31, 2005 and 2004, respectively. The aggregate fair value of the publicly traded securities at December 31, 2005 and 2004 was $347 and $280. The unrealized loss, net of tax, recorded in accumulated other comprehensive income was $471 and $238 at December 31, 2005 and 2004, respectively. A portion of these securities were sold during 2004 resulting in a gain of $3,061 ($1,990 after tax).

Investments in privately held companies are carried at cost of $4,240 and $4,666 at December 31, 2005 and 2004, respectively.

Note 2 (continued):

Advances and Contributions in Aid of Construction

Regulated utility subsidiaries may receive advances and contributions to fund construction necessary to extend service to new areas. As determined by the Regulators, 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. Non-cash utility property has been received, primarily from developers, as advances or contributions of $85,818 and $101,704 for the years ended December 31, 2005 and 2004, respectively.

Recognition of Revenues

Revenues of the regulated utility subsidiaries are recognized as water and wastewater services are provided and 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 unregulated operations is recognized as services are provided.

Revenues from certain construction projects are recognized over the contract term based on the estimated percentage of completion during the period compared to the total estimated services to be provided over the entire contract. Losses on contracts are recognized during the period in which the loss first becomes known. Revenues recognized during the period in excess of billings on construction contracts are recorded as unbilled revenue. Billings in excess of revenues recognized on construction contracts are recorded as other current liabilities on the balance sheet until the 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.

Construction Contract

In accordance with the American Institute of Certified Public Accountants' Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production Type Contracts," the consolidated statements of operations include revenues and operation and maintenance expenses related to an agreement for the design, construction and operation of a water treatment plant. Under this agreement, revenues were $75,013 and $60,706 and operation and maintenance expenses were $74,874 and $60,706 as of December 31, 2005 and 2004, respectively.

The construction is scheduled to be completed in 2007, and the Company will operate and maintain the water treatment plant for an initial contract period of twenty years beginning in 2007.

Note 2 (continued):

Income Taxes

The parent company and its subsidiaries and affiliates participate in a consolidated federal income tax return for U.S. tax purposes. Members of the consolidated group are charged with the amount of federal income tax expense determined as if they filed separate returns.

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 regulated 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 by the regulated utility subsidiaries 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 regulated utility subsidiaries record AFUDC to the extent permitted by the Regulators.

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. Remediation costs accrued at December 31, 2005 and 2004 were immaterial to the consolidated financial statements.

New Accounting Standards

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," which clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. The Company intends to adopt this standard as required effective January 1, 2006. The Company believes the adoption will have no impact on its financial position, results of operations or cash flows.

Note 2 (continued):

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment," which revises SFAS No. 123, "Accounting for Stock-based Compensation," and supersedes APB No. 25, "Accounting for Stock Issued to Employees." SFAS 123R generally requires that the Company measure the cost of employee services received in exchange for stock-based awards on the grant-date fair value and this cost will be recognized over the period during which an employee provides service in exchange for the award. The fair value of the option grant will be estimated using an option-pricing model. The Company is currently evaluating this standard to determine the impact on its consolidated financial statements, including the selection of an appropriate option-pricing model as permitted under SFAS No. 123R, and the method by which it will adopt SFAS No. 123R. The Company believes the adoption will have no impact on its financial position, results of operations or cash flows.

On October 22, 2004, the American Jobs Creation Act ("AJCA") was signed into law. Among other provisions, the AJCA creates a new deduction for qualified domestic production activities. Certain activities of the Company, such as its water treatment activity, are considered as qualifying production activities for purposes of determining the deduction for qualified production activities. In December 2004, the FASB issued FASB Staff Position 109-1 ("FSP 109-1"), "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." In accordance with FSP 109-1, the Company will treat the deduction for qualified domestic production activities as a reduction of the income tax provision in the period as realized. Since the deduction cannot increase a net operating loss, and all members of an affiliated group are treated as a single tax payer, the Company is not eligible for the credit in 2005.

On July 14, 2006, the FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," an Interpretation of SFAS No. 109, "Accounting for Income Taxes." FIN 48 intended to address inconsistencies among entities with the measurement and recognition in accounting for income tax deductions for financial statement purposes. Specifically, FIN 48 addresses the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when the company determines that it is more-likely-than-not that the tax position will be sustained. FIN 48 is effective for fiscal years beginning after December 15, 2006. Upon adoption of FIN 48, the cumulative effect shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company will adopt FIN 48 effective January 1, 2007. The Company is currently assessing the impact FIN 48 will have on its results of operations, cash flows and financial position.

(Dollars in thousands, except per share amounts)

Note 3: Restatement of 2004 Financial Statements

The Company has restated its 2004 consolidated financial statements. The consolidated financial statements as of and for the year ended December 31, 2004 contained herein have been updated to reflect these restatements, as well as certain reclassifications described below. The restatement adjustments were required to correct errors in the initial purchase price allocation of the RWE Acquisition, based upon the completion of an independent valuation report, and to correctly record impairments of goodwill and certain long-lived assets. In addition, the Company discontinued operations in 2005 which requires reclassification of 2004 balances to be consistent with 2005 (see Note 16.) Other reclassifications have also been made to conform 2004 balances to the current presentation. The following tables summarize the impact of these adjustments on the Company's consolidated financial statements, as restated.

Consolidated Balance Sheets

	2004 As Originally Stated	Adjustments	Legend	Discontinued Operations	Reclassifications	Legend	2004 As Restated
ASSETS							
Property, plant and equipment							
Utility plant - at original cost less accumulated depreciation	$ 6,896,569	$ -		$ -	$ 23,307	J	$ 6,919,876
Utility plant acquisition adjustments, net	1,161,608	(1,114,731)	A	-	(46,877)	K,N	-
Nonutility property, net of accumulated depreciation	88,466	(2,089)	B,C	-	-		86,377
Total property, plant and equipment	8,146,643	(1,116,820)		-	(23,570)		7,006,253
Current assets							
Cash and cash equivalents	52,812	-		-	-		52,812
Restricted funds	37,880	-		-	-		37,880
Utility customer accounts receivable	129,068	-		-	-		129,068
Allowance for uncollectible accounts	(6,218)	-		-	-		(6,218)
Unbilled revenues	169,315	-		-	-		169,315
Other receivables, net	108,728	-		(4,496)	17,472	L,M,N	121,704
Materials and supplies	42,658	-		-	(11,348)	N	31,310
Receivable from affiliates	-	-		-	17,469	M	17,469
Assets of discontinued operations	-	-		22,501	-		22,501
Other	32,860	10,996	D	(1,789)	4,198	N	46,265
Total current assets	567,103	10,996		16,216	27,791		622,106
Regulatory and other long-term assets							
Regulatory assets	414,938	-		-	72,086	K,O	487,024
Other investments	6,845	-		-	-		6,845
Receivable from affiliates	18,775	-		-	-		18,775
Goodwill	2,219,922	1,147,576	A,B,E,F,H	(16,216)	(16,867)	K	3,334,415
Intangible assets	1,039,879	(1,039,079)	B,C,F	-	(800)	P	-
Other	60,032	-		-	(4,618)	O,P,Q	55,414
Total regulatory and other long-term assets	3,760,391	108,497		(16,216)	49,801		3,902,473
TOTAL ASSETS	$ 12,474,137	$ (997,327)		$ -	$ 54,022		$ 11,530,832

(Dollars in thousands, except per share amounts)

Note 3 (continued):

	2004 As Originally Stated	Adjustments	Legend	Discontinued Operations	Reclassifications	Legend	2004 As Restated
CAPITALIZATION AND LIABILITIES							
Capitalization							
Common stockholder's equity	$ 3,047,447	$ (158,551)	A,B,C,D,E,G,H,I	$ -	$ -		$ 2,888,896
Preferred stocks without mandatory redemption requirements	1,750,000	-		-	-		1,750,000
Preferred stocks of subsidiaries without mandatory redemption requirements	4,651	-		-	-		4,651
Long-term debt							
American Water Works Company, Inc.	150,000	-		-	-		150,000
Subsidiaries	3,803,790	(55,919)	E	-	8,560	Q	3,756,431
Redeemable preferred stock at redemption value	26,348	(571)	E	-	(553)	R	25,224
Total capitalization	8,782,236	(215,041)		-	8,007		8,575,202
Current liabilities							
Short-term debt	360,269	-		-	-		360,269
Current portion of long-term debt	45,741	-		-	-		45,741
Current portion of redeemable preferred stock at redemption value	-	-		-	553	R	553
Accounts payable	185,527	-		(3,182)	-		182,345
Taxes accrued, including federal income	27,308	10,087	G,I	-	-		37,395
Interest accrued	46,014	-		-	-		46,014
Liabilities of discontinued operations	-	-		3,906	-		3,906
Other	137,345	-		(724)	22,155	K,Q	158,776
Total current liabilities	802,204	10,087		-	22,708		834,999
Regulatory and other long-term liabilities							
Advances for construction	453,641	-		-	-		453,641
Deferred income taxes	1,290,840	(792,373)	I	-	-		498,467
Deferred investment tax credits	32,633	-		-	-		32,633
Regulatory liability-cost of removal	115,111	-		-	23,307	J	138,418
Accrued pension expense	244,247	-		-	-		244,247
Accrued postretirement benefit expense	135,579	-		-	-		135,579
Other	40,332	-		-	-		40,332
Total regulatory and other long-term liabilities	2,312,383	(792,373)		-	23,307		1,543,317
Contributions in aid of construction	577,314	-		-	-		577,314
Commitments and contingencies	-	-		-	-		-
TOTAL CAPITALIZATION AND LIABILITIES	$ 12,474,137	$ (997,327)		$ -	$ 54,022		$ 11,530,832

(Dollars in thousands, except per share amounts)

Note 3 (continued):

Consolidated Statements of Operations

	2004 As Originally Stated	Adjustments	Legend	Discontinued Operations	Reclassifications	Legend	2004 As Restated
Operating revenue	$ 1,839,011	$ -		$ (10,078)	$ 69,757	S,T	$ 1,898,690
Operating expenses							
Operations & maintenance	1,041,948	(5,873)	D	(10,025)	69,757	S,T	1,095,807
Depreciation & amortization	228,773	(26,543)	A,B	-	-		202,230
General taxes	145,870	-		-	-		145,870
Gain on sale of assets	(8,504)	-		-	-		(8,504)
Impairment charges	-	210,049	C,H	(44,967)	-		165,082
Total operating expenses, net	1,408,087	177,633		(54,992)	69,757		1,600,485
Operating income (loss)	430,924	(177,633)		44,914	-		298,205
Other income (deductions)							
Interest	(192,772)	9,361	E	-	(2,006)	U	(185,417)
AFUDC equity	4,249	-		-	-		4,249
AFUDC debt	2,178	-		-	-		2,178
Amortization of debt expense	(2,827)	-		-	-		(2,827)
Preferred dividends of subs	(2,416)	-		-	2,006	U	(410)
Other, net	6,794	-		(185)	-		6,609
Total other income (deductions)	(184,794)	9,361		(185)	-		(175,618)
Income (loss) from continuing operations before tax	246,130	(168,272)		44,729	-		122,587
Provision for income taxes	101,005	8,250	G	153	-		109,408
Income (loss) from continuing operations	145,125	(176,522)		44,576	-		13,179
Loss from discontinued operations	-	-		(44,576)	-		(44,576)
Net income (loss)	145,125	(176,522)		-	-		(31,397)
Dividends on preferred stock	103,106	-		-	-		103,106
Income (loss) to common stock	$ 42,019	$ (176,522)		$ -	$ -		$ (134,503)

Restatement Adjustment Legend

A – Recorded adjustments to eliminate $1,114,731 of utility plant acquisition adjustments to reflect the revised purchase price allocation based upon the results of the independent valuation report, and to eliminate the corresponding $28,871 of 2004 amortization expense.

B – Recorded adjustments to increase unregulated assets by $3,748 and $12,078 to reflect non-utility property and intangibles at fair value based upon the results of the independent valuation report, and to record the corresponding depreciation and amortization expense of $2,328.

C – Recorded adjustments of $5,837 and $11,276 for impairments of certain nonutility property and intangibles.

D – Recorded adjustment of $10,996 to correct a cumulative error in the elimination of clearing accounts of which $5,873 originated in 2004 and $5,123 originated in prior years.

Note 3 (continued):

E – Recorded adjustments of $56,490 to reflect the fair value of debt pursuant to the revised purchase price allocation, and $9,361 to accurately record interest expense.

F – Recorded adjustment to reclassify $1,039,879 of intangible assets related to franchise rights to goodwill to reflect the revised purchase price allocation based upon the results of the independent valuation report.

G – Recorded adjustment to record the provision for income tax effects of all adjustments.

H – Recorded adjustment to record a goodwill impairment charge of $192,936.

I – Record income tax effect of entries A through F to increase Taxes accrued, including federal income by $11,465 and to decrease Deferred income taxes by $792,373.

Reclassifications:

J – Reclassified $23,307 of accumulated costs of removal to a regulatory liability (previously recorded net).

K – Reclassified $16,867 of goodwill and $44,777 of utility plant acquisition adjustments to a regulatory asset, based upon Regulator approval for recovery.

L – Reclassified receivable of $25,691 related to a long-term contract from Other current liabilities (previously recorded net).

M – Reclassified $17,469 of receivables from affiliates to Receivable from affiliates.

N – Reclassified certain miscellaneous assets to conform to 2005 presentation.

O – Reclassified $10,442 of deferred maintenance costs to Regulatory assets.

P – Reclassified $800 intangible balance to Other long-term assets.

Q – Reclassified to present gross receivable of $5,024 and long-term debt of $8,560 from Other current liabilities (previously recorded net).

R – Reclassified $553 of current portion of redeemable preferred stock.

S – Reclassified to present gross revenue and expense of $60,706 related to a long-term construction contract (previously recorded net).

(Dollars in thousands, except per share amounts)

Note 3 (continued):

T – Reclassified to present gross revenue and expenses of $9,051 related to management fees charged to an affiliate (previously recorded net).

U – Reclassified $2,006 of preferred dividends of subsidiaries to interest expense.

The Company's adjustments to restate the 2004 consolidated balance sheet and statement of operations had no impact on total cash flows or net cash flows from operating activities. The Company recorded an adjustment to accurately reflect noncash contributions of $68,000. This adjustment decreased net cash used in investing activities and decreased net cash from financing activities. The adjustment had no impact on the consolidated balance sheet or statement of operations.

January 1, 2004 retained earnings was restated to reflect a net increase of $17,971 for the 2003 net income impact of the adjustments noted above.

Note 4: Utility Plant

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

	Range of Remaining Useful Lives	2005	(Restated) 2004
Water plant			
Land and other non-depreciable assets		$ 131,477	$ 127,897
Sources of supply	15 to 93 Years	402,528	386,686
Treatment and pumping facilities	2 to 74 Years	1,796,445	1,754,298
Transmission and distribution facilities	8 to 91 Years	4,180,082	3,945,426
Services, meters and fire hydrants	1 to 98 Years	1,544,314	1,453,886
General structures and equipment	3 to 69 Years	676,352	647,896
Wastewater plant	4 to 75 Years	415,621	380,254
Construction work in progress		228,470	195,666
		9,375,289	8,892,009
Less accumulated depreciation		2,137,016	1,972,133
		$ 7,238,273	$ 6,919,876

Utility plant depreciation expense amounted to $219,252 in 2005 and $184,748 in 2004. Included in the 2005 amount is $20,105 resulting from an information technology project that was abandoned.

Note 5: Regulatory Assets

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates. Except for income taxes, regulatory assets are excluded from the Company's rate base and do not earn a return. The components of regulatory assets are as follows:

(Dollars in thousands, except per share amounts)

Note 5 (continued):

	2005	(Restated) 2004
Regulatory asset-income taxes recoverable through rates	$ 213,234	$ 216,203
Debt and preferred stock expense	55,015	56,620
Deferred pension expense	68,554	61,352
Deferred postretirement benefit expense	6,437	7,325
Deferred security costs	25,239	29,552
Deferred business services project expenses	23,960	31,273
Deferred tank painting costs	12,943	12,613
Deferred rate case	8,790	10,442
Purchase premium recoverable through rates	61,314	61,644
Environmental remediation recoverable through rates	5,557	-
	$ 481,043	$ 487,024

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 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.

The cost of additional security measures that were implemented to protect facilities after the terrorist attacks on September 11, 2001 has been deferred by certain subsidiaries. These costs are recognized in the rates charged for water service by certain subsidiaries.

Business services project expenses consist of reengineering and start-up activities for consolidated customer and shared administrative service centers that began operations in 2001. These costs are recognized in the rates charged for water service by certain subsidiaries.

Note 5 (continued):

Tank painting costs are generally deferred and amortized to current operations on a straight-line basis over periods ranging from 5 to 15 years, as authorized by the regulatory authorities in their determination of rates charged for service.

Purchase premium recoverable through rates is the recovery of the acquisition premium related to an asset acquisition by the Company's California subsidiary during 2002. These costs are being amortized to operations based on an agreed schedule of mortgage style amortization as authorized by the regulatory authorities. The recovery period is from May 2004 through December 2041.

Environmental remediation recoverable thru rates is a recovery of costs incurred by the Company's California subsidiary under a settlement agreement entered into with the National Oceanic and Atmospheric Administration to improve habitat conditions in the Carmel River Watershed.

Note 6: Employee Benefits

Pension and Other Postretirement Benefits

The Company maintains noncontributory defined benefit pension plans covering substantially all non-union employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for any employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 have their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 will be provided with a 5.25% of base pay defined contribution plan.

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 and bond mutual funds, fixed income securities and guaranteed interest contracts with Principal and Hancock insurance companies.

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 utility services as contributions are made to the plans (see Note 5).

The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company's policy is to fund postretirement benefit costs accrued. Plan assets are invested in equity and bond mutual funds.

(Dollars in thousands, except per share amounts)

Note 6 (continued):

The obligations of the plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future and the size of the plan assets are small relative to the Company's assets, the investment strategy is to allocate a large portion of assets to equities, which the Company believes will provide the highest return over the long run. The fixed income assets are invested in long duration debt securities in order to better match the duration of the plan liability.

The liabilities of the pension and other postretirement benefit plans were adjusted to their fair value at the time of the RWE acquisition. The Company periodically conducts an asset liability modeling study to ensure the investment strategy is aligned with the profile of the obligations. The long-term goals are to maximize the plan funded status and minimize contributions and pension expense, while taking into account the potential volatility risks on each of these items.

The asset allocation for the Company's U.S. pension plans at the end of 2005 and 2004 by asset category, follows:

Asset category	Target Allocation 2005	Percentage of Plan Assets At Year End 2005	2004
Equity securities	60%	60%	52%
Debt securities	40%	40%	47%
Cash	0%	0%	1%
Total	100%	100%	100%

The Company's other postretirement benefit plans are partially funded. The asset allocation for the Company's other postretirement benefit plans at the end of 2005 and 2004, by asset category, follows:

Asset category	Target Allocation 2005	Percentage of Plan Assets At Year End 2005	2004
Equity securities	60%	63%	63%
Debt securities	40%	37%	37%
Total	100%	100%	100%

(Dollars in thousands, except per share amounts)

Note 6 (continued):

	Pension Benefits 2005	Pension Benefits 2004	Other Benefits 2005	Other Benefits 2004
Change in benefit obligation				
Benefit obligation at January 1	$ 704,908	$ 645,173	$ 388,070	$ 373,012
Service cost	24,978	24,271	12,633	11,473
Interest cost	43,240	41,281	23,535	21,657
Plan participants' contributions	-	-	1,597	1,422
Amendments	(843)	969	(18,147)	445
Actuarial (gain) loss	41,242	11,986	19,772	(4,187)
Special termination benefits	890	1,460	-	-
Benefits paid	(25,289)	(20,232)	(17,248)	(15,752)
Benefit obligation at December 31	$ 789,126	$ 704,908	$ 410,212	$ 388,070
Change in Plan Assets				
Fair value of plan assets at January 1	$ 427,836	$ 392,705	$ 210,762	$ 182,400
Actual return on plan assets	19,926	35,148	13,198	16,208
Employer contribution	23,130	20,215	28,761	26,484
Plan particpants' contributions	-	-	1,597	1,422
Benefits paid	(25,289)	(20,232)	(17,248)	(15,752)
Fair value of plan assets at December 31	$ 445,603	$ 427,836	$ 237,070	$ 210,762
Funded status at December 31	$(343,523)	$ (277,072)	$(173,142)	$ (177,308)
Unrecognized prior service cost	8	915	(16,844)	1,384
Unrecognized net actuarial (gain) loss	89,847	32,004	64,866	40,345
Net amount recognized	$(253,668)	$ (244,153)	$(125,120)	$ (135,579)
Amounts recognized in the balance sheet consist of:				
Accrued benefit liability	$(253,668)	$ (244,153)	$(125,120)	$ (135,579)
Additional minimum liability	(1,161)	(223)	-	-
Intangible asset	123	129	-	-
Accumulated other comprehensive income	1,038	94	-	-
Net amount recognized	$(253,668)	$ (244,153)	$(125,120)	$ (135,579)

(Dollars in thousands, except per share amounts)

Note 6 (continued):

At December 31, 2005 and 2004, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

	Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2005	2004
Projected benefit obligation	$ 789,000	$ 705,000
Fair value of plan assets	446,000	428,000

	Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets	
	2005	2004
Accumulated benefit obligation	$ 678,000	$ 562,000
Fair value of plan assets	446,000	428,000

The accumulated postretirement benefit obligation exceeds plan assets for all of the company's other postretirement benefit plans.

Minimum funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. The Company plans to contribute at least amounts equal to the minimum required contributions in 2006 to the qualified pension plans. The Company plans to contribute its 2006 other postretirement benefit cost to its VEBA trusts.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

	Pension Benefits	Other Benefits
2006 expected employer contributions		
To plan trusts	$ 50,450	$ 25,580
To plan participants	2,672	53

(Dollars in thousands, except per share amounts)

Note 6 (continued):

The following table reflects the net benefits expected to be paid from the plan assets or the Company's assets:

	Pension Benefits	Other Benefits	
	Expected Benefit Payments	Expected Benefit Payments	Expected Federal Subsidy Payments
2006	$ 25,658	$ 18,376	$ 1,394
2007	25,967	20,322	1,561
2008	28,029	22,015	1,754
2009	30,414	24,056	1,913
2010	32,995	26,060	2,075
2011 - 2015	214,764	156,236	12,890

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

	Pension Benefits 2005	2004	Other Benefits 2005	2004
Weighted-average assumptions used to determine December 31 benefit obligations				
Discount rate	5.65%	6.00%	5.65%	6.00%
Rate of compensation increase	4.25%	4.75%	N/A	N/A
Medical trend	N/A	N/A	graded from 10% in 2006 to 5% in 2011+	graded from 10% in 2005 to 5% in 2010+
Weighted-average assumptions used to determine net periodic cost				
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected return on plan assets	8.75%	8.75%	8.40%	8.40%
Rate of compensation increase	4.75%	4.75%	N/A	N/A
Medical trend	N/A	N/A	graded from 10% in 2005 to 5% in 2010+	graded from 10% in 2004 to 5% in 2009+

N/A - Assumption is not applicable.

Note 6 (continued):

The discount rate assumption was determined for the pension and postretirement benefit plans independently. A yield curve was developed for a universe containing the majority of U.S. - issued Aa - graded corporate bonds, all of which were non callable (or callable with make-whole provisions). For each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company's pension expense increases as the expected return on assets decreases.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. 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	$ 5,581	$ (4,539)
Effect on other postretirement benefit obligation	$ 54,296	$ (45,060)

(Dollars in thousands, except per share amounts)

Note 6 (continued):

The following table provides the components of net periodic benefit costs for the years ended December 31:

	2005	2004
Components of net periodic pension benefit cost		
Service cost	$ 24,978	$ 24,271
Interest cost	43,240	41,281
Expected return on plan assets	(36,687)	(34,486)
Recognized net actuarial (gain) loss	64	54
Settlement charge/(credit)	160	9
Net periodic pension benefit cost	$ 31,755	$ 31,129
Special termination pension benefit charge	$ 890	$ 1,460
Components of net periodic other postretirement benefit cost		
Service cost	$ 12,633	$ 11,473
Interest cost	23,535	21,657
Expected return on plan assets	(18,290)	(15,895)
Amortization of prior service cost	79	72
Recognized net actuarial (gain) loss	343	(12)
Net periodic other postretirement benefit cost	$ 18,300	$ 17,295

The total additional minimum liability for the pension plans has increased from $223 at December 31, 2004 to $1,161 at December 31, 2005. This increase is primarily attributable to a decrease in discount rate from 6.00% to 5.65%.

Savings Plans for Employees

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company expensed matching contributions to the plans totaling $4,535 for 2005 and $4,150 for 2004. All of the Company's matching contributions are invested in one or more funds at the direction of the employee.

(Dollars in thousands, except per share amounts)

Note 6 (continued):

Employees' Investment Plan

Upon completion of the RWE Acquisition, the Company created the Employees' Investment Plan and converted the Employees' Stock Ownership Plan into this plan. Each participating employee can elect to contribute an amount that does not exceed 2% of their wages. In addition to the employee'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 made contributions to the plan totaling $1,010 for 2005 and $2,201 for 2004 that were primarily invested in a retirement trust fund. This plan was discontinued as of May 22, 2005.

Long-Term Incentive Plan

The Company participates in a RWE long-term incentive plan for executives ("RWE LTIP"). Under the RWE LTIP, Company employees were granted 120,004 performance shares of RWE common stock which vest over three years beginning January 1, 2005. Subject to the vesting provisions, the performance shares are payable in cash. As a result, the performance shares have been accounted for as a liability under the terms of SFAS 123. The liability will be remeasured at fair value at each reporting period until settlement. The Company recorded a liability of $1,400 related to the performance shares at December 31, 2005, which has been included in other current liabilities on the consolidated balance sheets. For the year ended December 31, 2005, the Company recognized approximately $1,400 of share-based compensation expense related to the performance shares in operations and maintenance expense.

The fair value of the performance shares was estimated using a lattice model. The fair value of the performance shares granted on January 1, 2005 was $21.73 per share at the grant date and $35.53 per share at December 31, 2005.

The following table summarizes performance share transactions under the RWE LTIP plan:

	2005 tranche
Outstanding at the start of the fiscal year	-
Granted	120,004
Forfeited	-
Outstanding at the end of the fiscal year	120,004
Exercisable at the end of the fiscal year	-

(Dollars in thousands, except per share amounts)

Note 7: General Taxes

Components of general tax expense for the years presented in the consolidated statements of operations are as follows:

	2005	2004
Gross receipts and franchise	$ 49,269	$ 42,513
Property and capital stock	76,440	74,234
Payroll	24,214	21,169
Other general	9,143	7,954
	$ 159,066	$ 145,870

Note 8: Income Taxes

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

	2005	(Restated) 2004
State income taxes		
Current	$ 10,450	$ 17,703
Deferred		
Current	590	(149)
Non-current	4,385	339
	$ 15,425	$ 17,893

	2005	(Restated) 2004
Federal income taxes		
Current	$ 59,080	$ (6,155)
Deferred		
Current	(6,686)	(7,041)
Non-current	23,074	106,120
Amortization of deferred investment tax credits	(1,403)	(1,409)
	$ 74,065	$ 91,515

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

	2005	(Restated) 2004
Income tax at statutory rate	$ (24,572)	$ 42,906
Increases (decreases) resulting from -		
State taxes, net of federal taxes	10,026	11,630
Flow through differences	2,655	1,541
Amortization of deferred investment tax credits	(1,403)	(1,409)
Subsidiary preferred dividends	745	845
Impairment charges	104,767	51,789
Other, net	(2,728)	2,106
Actual income tax expense	$ 89,490	$ 109,408

(Dollars in thousands, except per share amounts)

Note 8 (continued):

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

	2005	(Restated) 2004
Deferred tax assets:		
Advances and contributions	$ 70,151	$ 71,547
Deferred investment tax credits	11,031	11,422
Other postretirement benefits	46,286	50,019
Federal NOL carryforward	4,514	6,562
Pension benefits	72,599	71,329
Long-term debt	44,027	50,997
Other	75,286	76,499
	323,894	338,375
Deferred tax liabilities:		
Utility plant, principally due to depreciation differences	735,545	695,638
Income taxes recoverable through rates	83,161	84,319
Security costs	9,843	11,525
Business services project expenses	9,344	12,197
Other	9,575	33,163
	847,468	836,842
	$ (523,574)	$ (498,467)

No valuation allowances were required on deferred tax assets at December 31, 2005 and 2004 as management believes it is more likely than not that these assets will be realized.

Note 9: Leases

The Company has entered into operating leases involving certain facilities and equipment. Rental expenses under operating leases were $18,384 for 2005 and $20,630 for 2004. The operating leases for facilities will expire over the next 20 years and the operating leases for equipment will expire over the next five years. Certain operating leases have renewal options ranging from one to five years. Capital leases in effect at December 31, 2005 and 2004 are immaterial.

At December 31, 2005, the minimum annual future rental commitment under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are $17,590 in 2006, $15,177 in 2007, $13,887 in 2008, $12,451 in 2009, $9,198 in 2010 and $14,966 thereafter.

Note 10: Borrowings

On October 29, 2005, the Company executed a $550,000 revolving credit agreement with RWE to replace the 364-day $550,000 revolving credit agreement, which was terminated on October 28, 2005. The renewal date for this new facility is October 28, 2006. Borrowing under the revolving credit line, at the Company's option, bears interest at a rate based upon the London Interbank Offered Rate ("LIBOR"). The Company pays a commitment fee of 5.45 basis points on the entire amount of the commitment (whether borrowed or not borrowed).

Note 10 (continued):

No compensating balances are required under the agreement.

At December 31, 2005 and 2004, the Company had $361,063 and $360,269 of short-term debt outstanding, respectively. The weighted average interest rate on these borrowings was 3.30% and 1.43%, respectively. The total of the unused lines of credit at December 31, 2005 was $188,937.

On March 1, 2004, the Company refinanced short-term debt with a $123,000 long-term loan from RWE. The loan was in two tranches of $113,000 at 4.751% maturing on March 1, 2014 and $10,000 at 5.801% maturing on March 1, 2034. On September 30, 2004, the Company refinanced short-term debt and maturing notes with a $75,300 long-term loan from RWE. The loan was in two tranches of $25,000 at 4.921% maturing on September 30, 2014 and $50,300 at 5.90% maturing on September 30, 2034.

On March 18, 2005, the Company refinanced short-term loans with a new $75,000 loan maturing March 18, 2015. The new loan bears interest at the six-month LIBOR plus a margin of 36 basis points reset semi-annually.

On November 12, 2005, long-term loans with RWE of approximately $445,000 held by an affiliate, Thames Water Holdings, Inc, a wholly owned subsidiary of TWAUSHI ("TWHINC"), and its subsidiaries matured. The Company refinanced this debt with $445,000 in short-term loans from RWE. The majority of the loan balance matures on November 12, 2006 and bears interest at six-month LIBOR plus a margin of 10 basis points. The Company subsequently lent these funds to TWHINC and its subsidiaries. Additionally a $42,000 loan between TWHINC and RWE due to mature in May 2007 was reassigned to the Company in November 2005. The loan is classified as short-term debt as the loan may be terminated, in full or in part, at any time by either party. The Company subsequently paid down its $19,657 loan from TWHINC and lent the remaining $22,343 to TWHINC and its subsidiaries.

Income from early extinguishment of debts included in interest expense on the Company's consolidated statement of operations amounted to $11,445 in 2004.

Note 11: 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 consolidated balance sheets 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 preferred stocks with mandatory redemption requirements and long-term debt are estimated using discounted cash flow analyses based on current incremental financing rates for similar types of securities.

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

(Dollars in thousands, except per share amounts)

Note 11 (continued):

2005	Carrying Amount	Fair Value
Preferred stocks of subsidiaries with mandatory redemption requirments	$ 25,224	$ 28,275
Long-term debt of the company	150,000	149,034
Long-term debt of subsidiaries	4,214,135	4,160,640

2004 (Restated)	Carrying Amount	Fair Value
Preferred stocks of subsidiaries with mandatory redemption requirments	$ 25,777	$ 24,177
Long-term debt of the company	152,149	153,891
Long-term debt of subsidiaries	3,798,313	3,706,919

Note 12: Related Party Transactions

Thames Water Plc, an affiliate and wholly owned subsidiary of RWE, provided certain management services to the Company which amounted to $9,147 in 2005 and $11,480 in 2004.

Thames Water International Services Limited, an affiliate and wholly owned subsidiary of RWE, provided services of expatriate employees to the Company which amounted to $4,970 in 2005 and $3,604 in 2004.

The Company had a long-term receivable from TWAUSHI, its immediate parent company, for the reimbursement of costs related to the RWE Acquisition. The receivable balance was $18,800 and $18,775 at December 31, 2005 and 2004, respectively.

The Company had a long-term receivable of $467,343 at December 31, 2005 from an affiliate, TWHINC and its subsidiaries for financing that was completed in November 2005. The Company and its subsidiaries also have certain borrowing arrangements with RWE (see Note 10).

Interest on the Company's long-term borrowings with RWE included in interest expense on the Company's consolidated statements of operations amounted to $88,168 and $81,129 in 2005 and 2004, respectively. Also included in interest expense on the Company's consolidated statements of operations is interest income from its loan to TWHINC amounting to $229 in 2005.

Thames Water Investments Luxembourg ("TWILUX"), an affiliate and wholly owned subsidiary of RWE, is the holder of $1,750,000 of the Company's preferred stock which was issued in connection with the RWE Acquisition. Preferred dividends amounted to $103,250 and $103,106 in 2005 and 2004, respectively.

The Company provided certain management services (administration, engineering, finance, human resources, information systems, etc.) to affiliates, E'town Corporation, Elizabethtown Water Company, The Mount Holly Water Company, Edison Water Company, Liberty Water Company, and E'town Services LLC, and other subsidiaries of TWHINC, on an at-cost, not-for-profit basis in

Note 12 (continued):

accordance with a management and service agreement. Purchases of such services by the affiliates included in the Company's revenue and expenses amounted to $17,016 and $9,051 in 2005 and 2004, respectively. Included in Receivables from Affiliates are $502 and $2,622 for these services at December 31, 2005 and 2004.

New Jersey-American Water Company, Inc. ("NJAWC"), a subsidiary, purchases and sells water to Elizabethtown Water Company ("EWC"), a subsidiary of TWAUSHI. Net purchased water expense from the affiliate amounted to approximately $7,484 in 2005 and $7,711 in 2004.

NJAWC maintains agreements with both public and private water providers for the purchase of water to supplement water supply, particularly during periods of peak demand. The President and CEO of the Company is a Commissioner of one of these water providers. NJAWC purchased approximately $5,254 and $4,085 of water from this provider in the years ended December 31, 2005 and 2004, respectively. NJAWC's estimated commitments related to minimum quantities of purchased water under these agreements are $4,123 for 2006. The purchase rates are not set thereafter.

On March 29, 2006, NJAWC filed a petition with the NJ Public Utilities Commission for approval of the merger of EWC and its subsidiary Mount Holly Water Company ("MHWC") with and into NJAWC. The Company expects the merger to be approved in 2006.

Note 13: Commitments and Contingencies

Commitments have been made in connection with certain construction programs. In connection with obtaining the regulatory approvals necessary to complete the RWE Acquisition, certain state regulatory bodies have issued orders which prohibit certain of the Company's regulated subsidiaries from requesting rate increases for periods of time not exceeding three years.

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

The Company's regulated subsidiaries maintain agreements with other water purveyors for the purchase of water to supplement their water supply. The Company's subsidiaries purchased water expense under these types of agreements amounted to approximately $80,956 and $72,508 during the years ended December 31, 2005 and 2004, respectively.

The estimated annual commitment related to the minimum quantities of water purchased is expected to approximate $28,961 in 2006, $29,452 in 2007, $29,253 in 2008, $29,184 in 2009, $29,578 in 2010 and $428,689 thereafter.

Note 13 (continued):

Notice of termination of the $1,750,000 of preferred stock with TWILUX, long-term debt of approximately $2,184,120 with RWE, and short-term debt of approximately $361,063 with RWE in part or in full on demand at the option of RWE is possible and mandatory if there is a change in shareholder structure of the Company.

Note 14: Guarantees

The Company's lease arrangements include certain indemnifications in favor of the lessors (e.g., indemnifications for environmental matters) with terms that range in duration and scope and that are not explicitly defined. Where appropriate, an obligation for such indemnifications is recorded as a liability. Because the obligated amounts of these types of indemnifications often are not explicitly stated, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. As of December 31, 2005, the Company has not recorded any liability on its consolidated financial statements in connection with these indemnification obligations, as it does not believe, based on information currently available, that it is probable that any amounts will be paid under these guarantees.

In connection with its financing transactions, the Company engages trustees or custodial, escrow or other agents to act for the benefit of the investors or to provide other agency services. The Company typically provides indemnification to these agents for any liability or expenses incurred by them in performing their obligations. No liability is recorded for these indemnifications because the Company believes that it is unlikely that they will be required to perform or otherwise incur any losses associated with these indemnification provisions.

The Company also has various guarantees in contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnities that range in duration and coverage and that do not explicitly state the amount of the indemnification obligation. These guarantees would only result in immaterial increases in future costs and do not represent significant commitments or contingent liabilities of the indebtedness of others. To date, the Company has not made any significant payments for these indemnification obligations.

AWE holds a 50% interest in AW-Pridesa, a Delaware Limited Liability company. Pridesa America Corporation, a subsidiary of RWE and an affiliate of the Company, also holds a 50% interest. AW-Pridesa has contracted with Tampa Bay Water ("Tampa Bay"), an interlocal governmental agency of the State of Florida, to remedy and operate the Tampa Bay Seawater Desalination Plant. The parent company entered into a guarantee with Tampa Bay on November 15, 2004 for the full and prompt performance of certain contractual obligations limited to a total aggregate liability of $35,000. Contractual obligations call for certain construction activities and management services to be completed satisfactorily. The construction phase, amounting to approximately $30,000 is expected to be completed in 2006. AW-Pridesa took over operation of the plant on January 8, 2005.

Note 14 (continued):

The Company, on behalf of itself and its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. This insurance may be applicable to certain obligations under the contractual arrangements discussed above.

Note 15: Subsequent Events

RWE has announced its intention to divest its U.S. Water Division, which includes the Company, through an initial public offering ("IPO").The sales process has been initiated through filing for approval with certain state public utility commissions. The IPO will require filing of a registration statement with the U.S. Securities and Exchange Commission. The transaction will also be subject to approval of the RWE Supervisory Board. RWE expects to complete the IPO during 2007.

As of August 28, 2006, the Company's receivable from affiliates had been settled in full with the proceeds being used to prepay a portion of the Company's long-term debt with RWE.

Note 16: Discontinued Operations

After an evaluation of the unregulated businesses, it was determined that the AWE Engineering and Planning business was not meeting growth expectations and that Engineering and Planning was not a core business of the Company's operations. Therefore, AWE disposed of its unregulated Engineering and Planning reporting unit in 2005. On December 30, 2005, AWE sold AWS Engineers and Planners Corp. ("Engineers & Planners"), its Canadian based subsidiary that provided engineering services to corporate and municipal clients, primarily in Canada. AWE sold Engineers & Planners for initial consideration of $489 and contingent consideration of $430. The contingent consideration is payable if the purchaser of Engineers & Planners realizes certain levels of gross revenue from the Company's United States based subsidiaries in 2006 and 2007. Any contingent proceeds received will constitute additional consideration and will be recognized as income when received.

In 2005, upon completion of existing contracts, AWE disposed through abandonment its US Engineering and Planning and Industrials operations which provided engineering services to corporate and municipal clients in the United States. As a result of the disposition of the Engineering and Planning reporting unit in 2005, the Company recorded a loss of $16,350 which included a goodwill write-off $16,216.

(Dollars in thousands, except per share amounts)

Note 16 (continued):

Summary of assets and liabilities classified as discontinued operations in the Consolidated Balance Sheets includes the following:

	2005	2004
Assets of discontinued operations		
Other receivables, net	$ -	$ 4,496
Other current assets	-	1,789
Goodwill	-	16,216
Total assets of discontinued operations	-	22,501
Liabilities of discontinued operations		
Accounts payable	-	3,182
Other liabilities	-	724
Total liabilities of discontinued operations	-	3,906
Net assets of discontinued operations	$ -	$ 18,595

Discontinued operations presented in the Consolidated Statements of Operations include the following:

	2005	2004
Operating revenues	$ 14,020	$ 10,078
Operating expenses		
Operation and maintenance	14,446	10,025
Goodwill impairment charges	-	44,967
Total operating expenses, net	14,446	54,992
Operating loss	(426)	(44,914)
Other income (deductions)		
Other, net	36	185
Total other income (deductions)	36	185
Loss before income taxes	(390)	(44,729)
Provision for income taxes	150	153
Loss from operations	(240)	(44,576)
Loss on sale, net of $89 tax benefit	(16,350)	-
Loss from discontinued operations	$ (16,590)	$ (44,576)

(Dollars in thousands, except per share amounts)

Note 16 (continued):

Cash flows from discontinued operations are:

	2005	2004
Operating activities	$ 2,299	$ 4,090
Investing activities	54	(74)
Foreign currency translation adjustments	74	68
	$ 2,427	$ 4,084

Note 17: Goodwill and Intangible Assets

As of December 31, 2005 and 2004, the Company reviewed goodwill associated with its reporting units for impairment, and, as part of its assessment, the Company engaged an independent valuation firm. The performance of the impairment test involves a two-step process. The first step of the impairment test involves comparing the fair value of a reporting unit with the reporting unit's carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, a second step is performed to determine the amount of the impairment loss. The impairment loss is determined by comparing the implied fair value of goodwill with the carrying amount of goodwill. The Company believes that the estimates of fair value are reasonable. Changes in estimates of such fair value, however, could affect the calculation. The valuation was performed primarily using discounted cash flows and comparable public company analyses. As of December 2005 and 2004, the Company recorded an impairment charge for goodwill, including discontinued operations, related to certain reporting units in the amount of $299,339 and $192,936, respectively. The 2004 impairment charge for the unregulated business is primarily attributable to lower than expected growth and slower development compared with original expectations. The 2005 charge is primarily attributable to a change in the Company's strategic business plan for the unregulated business and lower margins than previously forecasted in the regulated business.

The change in the Company's goodwill assets, as allocated between the reporting units in 2005 and 2004, was as follows:

(Dollars in thousands, except per share amounts)

Note 17 (continued):

Reporting Unit	Balance as of December 31, 2003	Goodwill reclassified to assets of discontinued operations	2004 Impairment Losses	Balance as of December 31, 2004	2005 Impairment Losses	Balance as of December 31, 2005
Regulated	$ 3,130,468	$ -	$ -	$ 3,130,468	$ (253,486)	$ 2,876,982
Operations & maintenance	40,075	-	(40,075)	-	-	-
Residuals	89,841	-	(55,163)	34,678	(11,632)	23,046
Underground	67,777	-	(51,636)	16,141	(10,775)	5,366
Carbon	4,233	-	(1,095)	3,138	(1,386)	1,752
Engineering	61,183	(16,216)	(44,967)	-	-	-
Homeowner services	121,800	-	-	121,800	-	121,800
Military	28,190	-	-	28,190	(22,060)	6,130
Total	$ 3,543,567	$ (16,216)	$ (192,936)	$ 3,334,415	$ (299,339)	$ 3,035,076

Other intangible assets consist of customer contracts which were initially valued and recorded as part of the RWE Acquisition. The aforementioned operating conditions which caused the goodwill impairment charge also triggered the intangible asset impairment. The amount of impairment recorded by the Company in December 31, 2005 and 2004 was determined using the two-step process impairment review required by Statement of Financial Accounting Standards No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." In the first step, the projected undiscounted net cash flows associated with the Company's customer contracts over its remaining life were compared to their carrying amounts. The Company determined the carrying amount of its customer contracts exceeded its projected undiscounted cash flows. In the second step, the Company estimated the fair value of the Company's customer contracts using a variation of the income method of valuation for the O&M reporting unit, and estimated discounted cash flows for the Residuals reporting unit. Based on the Company's valuation, the Company recorded a non-cash impairment charge of $733 and $11,277 for the years ended December 31, 2005 and 2004, respectively, which was recorded in Impairment charges in the Company's statements of operations. The Company has no intangible assets as of December 31, 2005. Amortization expense for intangible assets subject to amortization prior to the intangible impairment for the years ended December 31, 2005 and 2004 was $67 and $1,579, respectively.